NATIONAL TAX JOURNAL

Volume III, No. 3 September 1950

(Continued inside cover)

PUBLISHED QUARTERLY BY THE NATIONAL TAX ASSOCIATION

NATIONAL TAX JOURNAL

PUBLISHED QUARTERLY BY THE NATIONAL TAX ASSOCIATION

Yearly subscription, $3.75 (To members included in annual dues) Single copy, $1.25

CONTENTS

(*Continued from front cover*)

Subscriptions should be sent to the publication office at 111 East Chestnut Street, Lancaster, Pennsylvania, or to Ronald B. Welch, Secretary, National Tax Association, P. O. Box 1799, Sacramento 8, California. Applications for membership, notices of change of address, and correspondence relating to advertising should be addressed to the Secretary. Complaints of nonreceipt of publications cannot be satisfied unless filed with the Secretary within sixty days of publication; thereafter, regular prices will be charged.

Communications for the editor, manuscripts, and books for review should be sent to Roy Blough, Editor, National Tax Journal, 1126 East 59th Street, Chicago 37, Illinois.

Opinions expressed in the Journal are not to be construed as those of the National Tax Association unless expressly so stated.

Entered as second-class matter April 29, 1948, at the post office at Lancaster, Pennsylvania, under the Act of March 3, 1879.

National Tax Journal

Volume III, No. 3 September 1950

OREGON'S WITHHOLDING TAX

WILLIAM W. COLLIER *

AT A SPECIAL ELECTION held October 7, 1947, the people of the State of Oregon decisively rejected a proposed retail sales tax for the fifth time, and by so doing made effective the withholding tax provisions of the State personal income tax law.[1] The contingent legislation had offered the people a choice of adopting a sales tax and having increased personal income tax exemptions or having personal income tax exemptions lowered and a withholding tax imposed. The tax issues involved in 1947 were rather clouded because of the restrictive use of income tax receipts, but the basic issue presented to the voters was the sales tax versus a broader personal income tax base with current payment and collection at the source.

No attempt will be made to describe the 1947 State political and financial scene, the popular "battle of the budget," or to analyze the tax alternatives which appeared. The purpose of this paper is simply to trace the development of the withholding tax concept as it applies in Oregon and to evaluate its fiscal importance. In conclusion a brief attempt will be made to relate the collection-at-the-source technique of income taxation to the general principles underlying personal income taxation at the state level.

Fiscal Climate for State Withholding

Although a few of the thirty-one states currently imposing some form of income tax upon individuals have applied to some degree for more than a decade a withholding-at-the-source method of tax collection on wages and salaries of nonresidents, Oregon was the first state government to adopt the collection-at-the-source principle in income taxation as applied to both resident and nonresident taxpayers.[2] Ore-

* The author is research director for the Oregon State Tax Commission. The views expressed are those of the author and do not necessarily reflect the official position of the Commission.

[1] The electorate by popular vote consistently defeated other sales tax measures by substantial margins at special or general elections held in 1933, 1934, 1936, and 1944. The personal income tax was approved by Oregon citizens on November 4, 1930.

[2] Subsequently, Delaware and the Territory of Alaska have enacted withholding tax plans within the provisions of their respective income tax laws. The Delaware plan is a temporary withholding tax on compensation paid for personal services which be-

gon's withholding tax is a full-fledged current collection system, which became law in July, 1947, and provided that 1 per cent of all wages, salaries, commissions, and emoluments paid for personal services on or after January 1, 1948, be withheld by employers. If the retail sales tax had been approved by the vote of the people on October 7, 1947, the withholding provisions of the income tax law simply would not have gone into effect.

The merit of withholding taxes at the source as a method of collecting state income taxes must be judged, of course, from the standpoint of the role the personal income tax plays in the whole state tax structure. If the personal income tax is a narrow-based tax and if it has little capacity as a revenue producer in relation to total state revenue needs, a withholding scheme may be a ridiculously troublesome administrative method compared with the old collection procedure. If, however, heavy reliance is placed upon the personal income tax in the state tax structure and the tax has a broad base, then the introduction of collection at the source may have important advantages.

The personal income tax in Oregon since its inception in 1930 has progressively obtained a more important place in the over-all State tax structure with the State Government depending largely upon income tax receipts for general fund expenses since 1937. Table 1 provides a brief background for understanding the historic place and present significance of the personal income tax in the Oregon tax structure.

The most significant observation resulting from analysis of the data is the difference in revenue produced from the various types of taxes during the period 1935 to 1949. Prior to 1947 and the withholding tax proposal, total Oregon tax collections, excluding unemployment compensation taxes, increased 2.4 times from $22,092 thousand in the calendar year 1935 to $52,560 thousand for the fiscal year ended June 30, 1946, whereas personal income tax collections during the same period increased 8.6 times from $1,679 thousand to $14,487 thousand. Extending the comparison to the 1948-49 fiscal year data, total State tax collections advanced 4.5 times over 1935 collections while personal income tax collections increased 21.4 times. In 1935, personal income taxes accounted for only 7 per cent of the total taxes collected; whereas they were 14 per cent of the 1940 total, 28 per cent of the 1945-46 total, and made up 36 per cent of the 1948-49 total. When the net profits of State liquor stores are included in the total revenue figures for the 1948-49 fiscal year, personal income taxes still account for one-third of the total State revenue for that year.

The scope of personal income taxation in 1935 embraced the intangibles income tax law as well as the personal income tax law. It would serve no significant purpose to spell out the definition of income for the personal and intangibles income taxes along with the

came effective on payments made on and after July 1, 1949, continuing until December 31, 1950, and the Alaskan plan was ratified under the second enactment of the Alaska Net Income Tax Act applicable to 1949 incomes. Both plans differ in concept, and have markedly different characteristics as compared with the Oregon law. Briefly, the Delaware system of payroll withholding is patterned along the lines of the Federal withholding plan, and the Alaskan withholding concept is based upon a percentage of the income tax payable to the Federal Government.

TABLE 1

OREGON STATE TAX COLLECTIONS [a]

(In thousands)

Tax	1935	1940	1945–46	1946–47	1947–48	1948–49
Ad valorem state property taxes	$ 4,555	$ 2,094	.....	.....	......	......
Admission and amusement taxes and fees	80	134	$ 636	$ 893	$ 1,009	$ 999
Alcoholic beverages [b]						
Liquor privilege tax	332	602	1,085	1,095	1,105	1,183
Liquor licenses and permit fees	301	377	898	726	651	698
Corporation fees	330	314	353	438	439	468
Fuel taxes, motor vehicles	8,022	11,420	14,445	18,051	19,787	20,645
Income taxes						
Personal income	1,679	4,016	14,487	19,972	30,863	35,864
Corporation excise	855	2,005	8,381	10,922	16,576	20,041
Inheritance and gift taxes	716	698	1,241	1,192	1,392	1,663
Insurance companies' taxes and fees	729	868	1,778	1,787	2,205	2,516
Miscellaneous licenses and fees	834	1,245	2,214	2,612	2,844	3,457
Motor vehicle						
Registration and license	2,388	3,235	4,277	5,393	4,248	4,142
Carriers' fees and taxes	753	1,346	2,390	3,172	4,140	5,743
Operators' license fees	374	81	134	156	495	527
Public utility companies' fees	65	113	111	119	138	203
Severance taxes	79	105	130	127	488	876
Total tax collections	$22,092	$28,653	$52,560	$66,655	$ 86,380	$ 99,025
Unemployment compensation taxes	.....	7,151	11,562	11,998	13,832	13,149
Total (including unemployment compensation)	$22,092	$35,804	$64,122	$78,653	$100,212	$112,174

[a] State tax collection figures exclude all taxes and revenues of the local governments, and the amounts are before the distribution of shared taxes; also excluded are State revenues derived from borrowings, grants-in-aid, certain services rendered by the State, and the sale of natural resources. All tax collection figures are the amounts of gross collections after refunds but before administrative expenses. Data for calendar years 1935 and 1940; and for fiscal years ended June 30, 1946, 1947, 1948, and 1949.

[b] Does not include the net profits of State liquor stores, which were as follows: 1935, $919,677; 1940, $2,508,319; 1945–46, $8,580,977; 1946–47, $9,176,343; 1947–48, $9,202,767; 1948–49, $7,083,138.

technical details of these laws. It is appropriate, however, to examine briefly the general coverage of the personal income tax laws from 1935 to 1947 in order to trace the trend and the size of the personal income tax base.

Prior to 1939 Oregon imposed three taxes upon or measured by net income: the corporation excise tax, the intangibles income tax, and the personal income tax. In 1935, the personal income tax exemptions were $800 for a single individual or married person not living with husband or wife and $1,500 for head of family or married person living with husband or wife. A credit of $300 was provided for each dependent, and Federal income taxes were allowed as a deduction. The tax rates were graduated by brackets of $1,000 from 2 per cent of taxable income to 7 per cent on taxable income in excess of $5,000. The intangibles income tax law in 1935 was, in essence, a surtax within the scope of the personal income tax with maximum ex-

emptions of $500, single, and $800, married. These exemptions were provided for the smaller incomes and decreased as the net income increased until they entirely disappeared when the individual's net income from all sources reached $1,500, if single, or $2,500, if married. The rate was 8 per cent on income from intangibles.

The 1939 legislative session stayed the operation of the intangibles income tax law of 1931, increased the personal income tax rates by placing a 2 per cent surtax on income from money and credits, and "split" the first bracket of the personal income tax, making the 2 per cent normal tax rate applicable to the first $500 of taxable income.

The 1943 session repealed the surtax and did not revive the intangibles tax. The 1943 legislature also provided tax discounts on both the personal income and corporation excise taxes, which the tax commission computed at 75 per cent and 30 per cent for tax years beginning in 1943 and 1944, respectively.

For the tax year 1945 the exemption of a single person was lowered from $800 to $750. When the 1947 legislature convened, the personal income tax exemptions had not been drastically changed since 1933. The personal exemptions were $750, single, and $1,500, married, with a credit of $300 for each dependent. Oregon's personal income tax was and had been a relatively broad-based tax, designed to include the smaller incomes.

The magnitude of the increase in personal income tax yields in Oregon from 1935 to 1947 can be explained more in terms of economic factors than by changes in tax law. The principal factors influencing these notable increases were improved business conditions, industrial expansion during the war and postwar years, higher income payments made to individuals, and a remarkable increase in State population (see Table 2). While the economy expanded and income tax collections increasingly augmented State revenues, the problem of adequate State income tax administration was proportionately intensified.

No serious thought was given to State income tax withholding in Oregon until the postwar period. The most pressing problem facing State income tax administration during the war years was that of maintaining a sufficient and competent force of auditors and agents. At that time Oregon was witnessing a large influx of new industries closely connected with the war effort, notably shipbuilding, electro-chemical and metallurgical establishments, and war construction; and along with these new industries came a large influx of war workers and transient labor. During these years, audits began to lag further behind current income tax liabilities, and the tax commission feared that a large number of the new labor force would evade State income tax laws and leave the State long before they could be discovered and the proper tax assessed. In connection with this problem, the commission began to tighten up on the employer and income-payor requirement of submitting information returns, and some thought was given to income tax withholding at the State level. However, since the State was losing a large number of employes to the war effort, nothing was seriously proposed.

TABLE 2

OREGON: POPULATION, INCOME PAYMENTS, AND VALUE ADDED BY MANUFACTURE

1930–49

(Population estimates in thousands; money figures in millions)

Year	Total Population (Midyear Estimates)[a]	Total Income Payments[b]	Value Added by Manufacture[c]
1930	954	$ 524	...
1935	1,001	459	$114
1937	1,048	580	169
1939	1,080	587	172
1940	1,090	633	...
1945	1,325	1,671	...
1946	1,437	1,777	...
1947	1,545	1,984	675
1948	1,639	2,134	...
1949	1,736	2,060	...

[a] Early preliminary releases of the 1950 census in Oregon indicate that the 1948 and 1949 midyear estimates may need adjustment downward.

[b] "Income payments to individuals" is a measure of the income received by residents of a state from business establishments and governmental agencies. It comprises income received by individuals in the form of (1) wages and salaries; (2) proprietors' incomes, representing the net income of unincorporated establishments (including farms) before owners' withdrawals; (3) property income, consisting of dividends, interest, and net rents and royalties; and (4) "other" income, which includes public assistance and other direct relief. Amount shown for 1949 is preliminary.

[c] "Value added by manufacture" provides the best census measure of the relative economic importance of manufacturing in different industries and different areas. It measures the approximate value created in the process of manufacture, that is, the contribution of manufacturing establishments to the value of finished manufactured products. The 1947 census of manufactures was the first to be taken since 1939. Owing to the large-scale revisions in industrial classification in recent years, the 1939 and prior year figures are not strictly comparable with 1947. Adjustment of earlier data for a comparison with 1947 would revise the 1939 and prior year figures downward.

Source: U. S. Department of Commerce estimates.

Earlier forebodings became a recognizable fact late in 1946 when the tax audit began to disclose that State income tax returns had not been filed by many well-paid war emergency workers who had apparently left the State immediately after hostilities ended. By December 31, 1946, a preaudit of 1945 employer or income-payor information returns revealed that there were over 100,000 individual forms 99 (State information returns comparable to the Federal forms 1099 and W-2) for which 1945 tax returns could not be found. It was estimated at that time that this represented at least 20,000 individuals who had taxable income but who had failed to file personal income tax returns for the tax year 1945. The whole problem of adequate income tax administration was presented to both the House and Senate Assessment and Taxation Committees of the 1947 legislature.[3]

One other point, the matter of fiscal expediency, should be touched upon at this time in connection with the movement toward the development of the State withholding tax idea. To meet future financial requirements of the State, many members of the 1947 legislative session believed that additional revenue sources were sorely needed. Budgetary requests for the 1947-49 biennium had substantially increased, and although a frugal approach to appropriations was being made it was evident that requirements were definitely on the increase. Two distinct legislative tax programs evolved during the session. One defended retail sales taxation and the other supported a broader personal income tax base with a cur-

[3] For a brief general discussion, see *Eighteenth Biennial Report of the State Tax Commission* (Salem, Oregon, 1947), p. 6.

rent tax payment plan. It was estimated that either tax program would bring in sufficient revenue for the ensuing biennium. The latter program would bring in sufficient revenue for the biennium not so much by the lowering of personal income tax exemptions, but by the "doubling up" of personal income tax collections engendered by the current tax payment plan. In other words, a State withholding tax was an expedient fiscal measure which could ease Oregon's financial problem by an immediate production of revenue without the enactment of additional taxes.

Withholding Tax Plan, 1947

Early in the 1947 legislative session, plans were made for improved income tax administration. The specific problems of uncovering and assessing current tax liabilities of the smaller income groups, notably transient labor and the itinerant worker, were discussed. It was thought that the information-at-source returns, forms 99, only scratched the surface in prior years in uncovering individuals having personal income tax liabilities. It was not only difficult to enforce the employer information requirement, but when employers did report they only reported, according to regulation at that time, salaries, wages, or other compensation paid for personal services in the cases where individuals received over $750, if single, or over $1,500, if married. There was little information on those individuals who changed jobs intermittently, and Oregon is a state which has a great number of seasonal workers. The State could not keep pace with the itinerants who moved from job to job within Oregon with incomes taxable in the aggregate, or with the problem of itinerants moving in and out of the State.

Before the war, Oregon utilized both the Federal transcript service and Recordaking of green copies and original Federal returns to good advantage. During the war and postwar years abstracts from the Federal audit lists and Federal refund lists were being used by Oregon with productive results, but these abstracts concentrated more on returns with the higher incomes and they were not timely. Personnel and other costs involved in abstracting current Federal income tax filings had precluded an actual check to discover omissions in personal returns filed with the State. Comparisons at that time between the total individual Federal and State filings had revealed that the two were closely related, and since Federal withholding tax requirements did not apply to large segments of the Oregon population, chiefly farmers, it was felt that the State would simply have to find and utilize new methods by which a better coverage of investigating the smaller income recipients could be instigated.

Proposals were then made to broaden the requirement for submitting employer information returns to the State and thereby extend the use of such information to current audit. Information-at-source returns, forms 99, were to be required from all Oregon employers and were to be filed quarterly, showing complete payrolls and listing all types of income payments to all resident and nonresident individuals. Employer compliance with this type of extended information proposal would need sufficient policing and some sort of penalty provisions. The collection-at-the-source technique of personal income

taxation was introduced to provide the means by which improved income tax administration along these lines could be effectively advanced. However, the proponents of this plan were cognizant of the fact that a state withholding tax would not solve all collection problems. The difficulty would still remain of uncovering the tax liabilities of small businessmen, farmers, and professional people who did not receive their income in the form of salaries or wages. Nevertheless, if a state withholding tax could be developed on a broad basis, it would substantially include the majority of taxpayers either as wage earners or employers as collecting agents.

The idea of using a withholding tax as a device to facilitate income tax administration was met with favor by those supporting increased direct personal taxation in preference to indirect general retail sales taxation to meet the additional State requirements. Under their theory, a broad based pay-as-you-go direct income tax recognizes the basic principle underlying a collection-at-the-source system; viz. that every person with tax-paying ability should pay some sort of direct personal tax to the government under which he is domiciled or from which he receives the personal benefits that government confers, and that direct collection of income taxes from all persons would be too difficult and costly to undertake without collecting at the source. By proposing withholding and reduced exemptions, the advocates of increased direct personal income taxation could meet the compelling argument that additional revenue should be produced currently on a broad base as recommended by the proponents of general retail sales taxation.

Withholding tax plans boiled down to a proposed tax of 1 per cent on all wages and salary payments which would be withheld by employers from wages when paid. The taxes withheld would be paid to the State Tax Commission quarterly. This current payment plan would apply to approximately 80 per cent of all those filing taxable personal returns in 1946, representing in the aggregate 63 per cent of the total adjusted gross income. The proposed 1 per cent did not exceed the then-current average effective rate of State tax on adjusted gross income, nor was it thought that such a proposal would generate an excessive volume of refunds.

The State withholding tax concept was broader in coverage than the Federal system in that more employers would participate, and all salary and wage earners whether factory workers, agricultural laborers, or domestic servants would be included. Payment of the State withholding tax by employers could be computed on the total payrolls, plus the aggregate amount of commissions or other emoluments paid to individuals but not included in the total payroll figure. Thus, record keeping by the employer could be kept at a minimum, and the additional cost to the State in administering the personal income tax law would not be excessive.

A flat 1 per cent rate would be more acceptable to employers acting as withholding agents than a system trying to take into account the personal exemptions, deductions, and nominal progressive rates of tax set out in the law. If

the State withholding tax were levied at variable rates according to income brackets, the employer, in addition to following Federal withholding requirements, would have to refer to various additional tables in order to compute the amounts of State tax to be withheld. Such a plan would involve high compliance costs and would be vigorously opposed by certain employer groups, especially the farm group who would act as withholding agents for the first time.

As analyzed in Table 3, the effective tax rates by adjusted gross income brackets take into consideration all the factors involved in determining the amount of tax liability due. The average effective rate of State tax was 1.54 per cent on 1946 adjusted gross income, and out of 305,505 taxable 1946 returns, 244,467 were filed by taxpayers who received the major portion of their reported income in the form of salary and wage payments. The average effective rate of 1.54 per cent was believed to be too high in that most wage and salary earners were in the group of taxpayers having gross incomes under $5,000. An over-all 1 per cent withholding tax rate would be more in line with their ultimate tax liabilities, especially if personal exemptions were lowered to $500, single, and $1,000, married, which would increase the effective tax rates as witnessed on 1947

TABLE 3

Effective Tax Rates by Adjusted Gross Income Brackets,[a] 1946 and 1947 Taxable Individual Returns

(Money figures in thousands)

Adjusted Gross Income Bracket	Number of Returns		Adjusted Gross Income		State Income Tax Assessed		Effective Tax Rate on Adjusted Gross Income (Per Cent)	
	1946	1947	1946	1947	1946	1947	1946	1947
Under $ 1	5,167	61,229	$ 5,540	$ 49,382	$ 25	$ 326	0.45	0.66
$ 1– 2	67,493	144,930	132,660	217,956	809	1,949	.61	.89
2– 3	108,499	157,901	341,161	394,441	2,424	4,782	.71	1.21
3– 4	66,611	78,123	281,411	268,825	2,678	4,149	.95	1.54
4– 5	23,202	27,207	128,569	121,372	1,720	2,282	1.34	1.88
5– 7	15,696	16,019	115,268	93,767	2,288	2,322	1.99	2.48
7– 10	8,830	8,298	94,582	68,743	2,705	2,119	2.86	3.08
10– 20	7,358	7,126	124,730	96,957	4,282	3,422	3.43	3.53
20– 30	1,569	2,062	46,832	49,334	1,586	1,915	3.39	3.88
30– 40	409	829	18,628	28,058	637	999	3.42	3.56
40– 50	278	531	15,679	23,799	497	844	3.17	3.55
Over 50	393	1,438	34,195	134,324	946	4,716	2.77	3.51
Total	305,505	505,693	$1,339,255	$1,546,957	$20,599	$29,825	1.54	1.93

[a] "Adjusted Gross Income" is gross receipts less trade and business expenses (including the expenses of acquiring an income), but without allowance for personal deductions, exemptions, and dependency credits for tax purposes. "Adjusted Gross Income" from salaries and wages substantially represents total income before taxes.

Note: Details may not add to totals because of rounding. Effective rates computed from unrounded data.

adjusted gross incomes. A lower rate than the average effective rate of 1.54 per cent in 1946 would also minimize the volume of refunds.

Based upon U. S. Department of Commerce income payment data, the 1 per cent plan was estimated to augment State income tax collections during the first year by approximately $9 million, or three quarterly payments of $3 million each. These withholding tax receipts would increase total net tax collections the first year by the timing of collections but would not increase the individual income tax liabilities.

It would be gratifying if a practical system of collecting State and Federal taxes from all taxable individuals could be arranged whereby the amounts withheld during the course of a year would equal the exact amount of tax due by the taxpayer on his annual income. It would satisfy the individual's yearly tax obligation on a current basis; it would dispense with his annual task of making out and filing a personal income tax return; and it would level off annual peak work periods for the income tax administrator. However, the mechanics of such a system, especially under a broad withholding tax coverage, would be rather onerous to the rank and file withholding agent. Simplicity in income taxation is usually an outstanding virtue, and the State withholding tax plan was trying to strike a proper balance among: (1) the taxpayer and his ultimate tax liability, that is, equalizing the tax withheld to the ultimate tax assessed; (2) the employer as a collecting agent—keeping compliance costs to a minimum; (3) the State —keeping the additional costs of collecting personal income taxes to a minimum.

Withholding Tax Law, 1947

The withholding tax measure which was passed by the 1947 Legislative Assembly closely resembled the British Columbia withholding tax plan of 1938.[4]

The Oregon law provided:

Section 110-1620a. 1. Every employer at the time of the payment of wages, salary, bonus or other emolument to any employe shall deduct and retain therefrom an amount equal to 1 per cent of the total amount of such wages, salary, bonus or other emolument computed without deduction for any amount withheld, and shall, quarterly, on or before the thirtieth day of April, July, October and January pay over to the commission the amount so deducted and retained from wages, salary, bonus or other emolument paid to any employe during the preceding three months. Every amount so paid over shall be accounted for as part of the collections under this chapter. No employe shall have any right of action against his employer in respect of any moneys deducted from his wages and paid over in compliance or intended compliance with this section.

2. Every employer shall, with each payment made by him to the commission deliver to the commission a return in the prescribed form, showing the total amount of wages, salaries, bonuses or other emoluments paid to his employes, the amount deducted therefrom in accordance with the provisions of this section, and such other information as the commission may require.

3. Every employer who deducts and retains any amount from the wages of an employe under the provisions of this section

[4] British Columbia Laws 1938, chapter 280, section 23. The province of British Columbia had experienced a successful administration of taxing salary and wage income at the source since 1931. For a discussion, see Walter W. Heller, "Collection Methods Appropriate to the Wartime Use of Income Taxes," *Financing the War*, symposium conducted by the Tax Institute, December, 1941.

shall be deemed to hold the same in trust for the state of Oregon and for the payment to the commission in the manner and at the time provided under this section; and the amount shall, until paid, form a lien and charge on the entire assets of the employer having priority over all other claims of any person.

4. The amounts deducted from the wages of an employe during any year in accordance with the provisions of this section shall be considered to be in part payment of the tax on such employe's income for the corresponding period, and the return made by the employer under section 110-1615 shall be accepted by the commission as evidence in favor of the employe of the amounts so deducted from his wages; but where the total amount so deducted exceeds the amount of the tax on the employe's income as computed under section 110-1605, as amended, or section 110-1605b, as added to chapter 16, title 110, O.C.L.A., by chapter 411, Oregon Laws 1945, or where his income is not taxable under this act, the commission shall, after auditing the annual return filed by the employe in accordance with section 110-1616, as amended, refund the amount of the excess deducted. No refund shall be made (a) where the amount of the excess deducted is less than two dollars, or (b) where the employe has failed to file a return under section 110-1616, as amended.

5. No amount shall be deducted or retained by any employer from the wages of any employe unless the aggregate of the wages paid by such employer during the calendar month exceeds the sum of fifty dollars ($50), or such other amount for any lesser period as the regulations may provide.

6. No amount shall be deducted or retained from (a) wages paid for active service in the military or naval forces of the United States, or (b) wages or salary paid to an employe of a common carrier where such employe is not a resident of Oregon as defined in section 110-1602, and regularly performs services both within and without the state of Oregon.

7. This act shall be effective with respect to all wages, salaries, bonuses or other emoluments for services as an employe, paid on or after January 1, 1948; provided, that this act shall not become operative with respect to such wages, salaries, bonuses or other emoluments for services of an employe if, on or before January 1, 1948, any act increasing the amount of the personal exemptions as provided for by section 110-1613, O.C.L.A., as amended by section 3, chapter 411, Oregon Laws 1945, has become effective and operative.[5]

The Oregon law follows the British Columbia law very closely down to paragraph 5. The British Columbia Law provides:

> No amount shall be deducted or retained by any employer from the wages of any employe earned after the 31st day of March, 1934, unless the aggregate of the wages so earned during any calendar month exceeds the sum of $50, or such other amount for any lesser period as the regulations may provide.

The language was changed, in the Oregon law, for the express purpose of applying the $50 figure to the employer's total payroll. However, it should be noted that paragraph 5 of the Oregon law is ambiguous and the $50 exemption could conceivably be applied to wages earned by each individual employe during any calendar month. The legislative journals do not reveal the explicit legislative purpose of the $50 exemption, but the matter was discussed at some length before the taxation committee in both the Senate and the House. Neither committee changed the wording of paragraph 5 as it appeared in the original draft of the bill, and the act was passed with the general

[5] Chapter 536, Oregon Laws, 1947.

understanding and clear intention of applying the $50 exemption to the employer's total payroll. The tax commission's regulation was based upon this clear understanding of the law's meaning at the time of its passage and set forth that every Oregon employer whose gross payroll, in money payments, for any month exceeded $50 was required to withhold 1 per cent from the compensation of all employes, irrespective of the amounts paid to individual employes.

The 1 per cent was not only to be withheld on gross payrolls, disallowing any deductions, but would also include 1 per cent of the fair value of meals, quarters, and services furnished to the employe as a part of his compensation.

Oregon's withholding tax as first enacted was to be applied on a broad base to wages, salaries, and other emoluments, with few exemptions.

Administration, 1948

There was a great deal more than customary opposition to tax legislation when the citizens of Oregon looked at the tax measures passed by the 1947 Legislative Assembly. Immediately after the defeat of the referred Sales Tax Act and the Cigarette Tax Act at the special election held on October 7, 1947, the constitutionality of the Income Tax Withholding Act and the Income Tax Exemption Act (personal exemption lowered to $500, single, and $1,000, married) was challenged on the grounds that the two acts in question were enacted (1) by authority not provided in the State constitution, and (2) by denying the people the power to invoke the referendum which was in contravention to Article IV, section 1, of the constitution. However, the Supreme Court of Oregon held that these acts were not violative of constitutional provision, being complete in themselves, passed by the Legislature, and approved by the Governor, and were merely dormant until brought into operation by rejection of the Sales Tax Act by the people. The people could have invoked the referendum against either or both of these acts in their entirety.[6]

Thereupon, by an initiative measure at the general election on November 2, 1948, the people restored the personal exemptions to $750 for a single person, and $1,500 for a married couple or the head of a family. In effect, the personal exemptions were increased retroactively to January 1, 1948, the effective date of the withholding tax, and the lowered exemptions applied only to the tax year 1947. In other words, the personal income tax base upon which withholding had been patterned was not as broad as had been anticipated.

Although outright repeal of the withholding tax was not initiated during 1947 or 1948, it escaped such treatment by only a very small margin.

The approach by the State Tax Commission in administering the law during the first year was one of reasonable action rather than one of technical enforcement. Two basic factors molded this approach. First, the withholding tax law itself did not make provision for penalties or interest charges if an employer failed to withhold; and second, the premise held by the public at large, that the withholding tax would

[6] *Marr v. Fisher et al.*, 182 Or. 383, 187 P. (2d) 966.

be short-lived and undoubtedly repealed at the next session of the legislature, placed a psychological stigma on the initial administrative effort. The commission was not only bound to administer the law as it appeared in the statutes, but believed that with a reasonable administrative approach the withholding tax could be developed into a strategic technique of income tax collection and that it would gain popular approval as such, whereas, a meticulously strict method of administration would likely kill any possibilities a withholding tax might have in State finance before such a measure was given a fair trial.

In the matter of penalties for employer noncompliance, the general enforcement provisions of the personal income tax law were not applicable. The employer by definition in the withholding tax law was a trustee and not a taxpayer. However, in the case of the employer who actually withheld but failed to remit the amounts withheld to the State Tax Commission, there would be no question that he was guilty of a conversion to his own account and would be subject to penalities for embezzlement. Where an employer failed to withhold and failed to make proper reports, the commission ruled that the penalty provisions in section 110-1627, O.C.L.A., were applicable in the case of the employer who failed to "make, sign or verify any return or to supply any information required by or under the provisions of the act."

Although the State withholding tax had been intentionally enacted on a very broad wage payment base with no exemption for salary and wage earners, actual administrative application to employers immediately narrowed that base through (1) the Federal Government's immunity declaration exempting wages of Federal employes, and (2) the State's limited jurisdiction in the matter of wages paid certain employes, such as seamen and Oregon employes working outside the State.

The lack of cooperation by the Federal Government was a hard blow to State tax administration. From the State's viewpoint, the Federal position was illogical and unreasonable when viewing the fact that the Commissioner of Internal Revenue must entirely rely upon the principle of comity when the Federal regulations define a state as an "employer" within the meaning of the Current Tax Payment Act of 1944 (Federal withholding tax). The State of Oregon is not obliged to withhold from the wages of State employes engaged in governmental functions on account of the Federal income tax law, since it is a fundamental principle, implied in the dual constitutional system, that the Federal and state governments are to exercise their powers so as not to interfere with the free and full exercise of powers of the other. It seems, therefore, that the Federal Government does not have power to impose a ministerial duty upon state officers strictly for Federal purposes without the state's consent.[7] The definition of "employer" under the Current Tax Payment Act of 1944 makes no mention of the state as such, and the states had to be included within the definition of "employer" by regulation. Oregon was trying to do by State withholding tax regulation the same as was set out

[7] 48-50 Op. A. G., No. 993 (February 22, 1949).

by Federal regulation, relying upon the principle of comity.

The Comptroller General of the United States did not choose to allow State withholding on Federal wage payments in Oregon, and explained: "... Since it is obvious that the effect of the provisions of the Oregon tax law here involved, so far as the matter of the withholding and payment by the federal government of the tax in question is concerned, is such as to impose a direct burden upon the United States, it must be concluded that the withholding feature of the Oregon income tax law is not for application in the case of payments of salary or wages to federal employes. . . ."[8]

Oregon could have aggressively used the same argument in regard to the withholding feature of the Federal income tax law in the case of payments of salary or wages to State employes, but chose, however, to acquiesce and continue Federal income tax withholding for the convenience of State employes. Under these circumstances the term "cooperation" was a one-way street so far as Oregon was concerned, and one gets a little weary of reading current professional reports and hearing glamorous official statements about Federal-state tax cooperation and coordination. Oregon still had the embarrassing problem of trying to collect the State personal income tax from the temporarily assigned Federal employes within the State and from certain Federal employes working in Oregon but residing across the State line.

The State Tax Commission's preliminary withholding tax instructions required every employer, regardless of whether or not such employer was situated within the State of Oregon, to withhold with respect to employes regularly employed within the State, and also required every Oregon employer to withhold with respect to wages and salaries paid to Oregon employes who worked or resided either inside or outside of Oregon. The latter requirement was immediately protested on the grounds that an Oregon employer would have the impossible task of discovering those employes working in a plant outside the State who came within the meaning of the commission's ruling. In the final printed withholding tax instructions, State withholding was not required in the case of wages paid by an Oregon employer for services rendered wholly outside the State in an office or plant situated in another state, even though the employe was a resident of Oregon. If, however, the office or headquarters to which such employes reported was located in Oregon, the Oregon employer was held liable for the withholding tax with respect to all domiciliary or statutory residents of the State, even though their services were rendered wholly without the State.

In brief, the final ruling had been rephrased as a matter of employer convenience. The commission simply did not wish to place the chore of discriminating between Oregon and non-Oregon residents upon the Oregon employer.

A vigorous campaign to instruct all employers coming within the meaning of the Oregon withholding tax law was initiated early in 1948. Printed instructions and withholding tax forms

[8] Letter of Comptroller General of the United States to Attorney General of the United States, dated January 6, 1948, signed by Lindsay C. Warren.

were immediately mailed to all known Oregon employers. The Federal withholding tax mailing list and county agents' lists of farm employers were used to good advantage in this respect. Local newspapers and radio stations cooperated with the State Tax Commission in giving extensive publicity to the new withholding tax act; and local business associations briefed their members as to employers' duties under the law, as did certain farm groups. This widespread publicity stimulated immediate employer compliance to a large extent, but not complete compliance.

Withholding Tax Forms and Reporting

Many employers outside the farm group had been conditioned to the mechanics and necessity of withholding for a number of years. Along with the Federal income tax withholding and the unemployment and old-age insurance tax programs, various other payroll deductions plans, such as employe purchases of U. S. Treasury bonds, payments of life insurance and hospitalization premiums, regular savings plans, and withholding for union dues, had been in effect for many years when the Oregon withholding tax became law. In addition, as previously indicated, some of the procedural machinery for reporting to the State certain income payments made to individuals was already in operation. For a number of years, income-payors had filed an annual information statement and affidavit, form 96, reporting the number of forms 99 attached. A separate form 99 was attached for each payee whose income was required by law to be reported by the payor.

By 1948, considerable attention and a great deal of discussion had been directed to the employers' point of view on compliance burdens, and the State Tax Commission was intensely interested in a simplified State withholding tax report procedure that could be easily integrated by the employer into his payroll accounting system and that would be acceptable to and understood by the farm employer group. Since the State withholding tax was simply 1 per cent of total wage payments regardless of the individual employe's taxable income bracket or marital or dependency status, the employer was not required to record employe exemption certificates, as required by the Federal Government on form W-4, nor did he have the task of referring to various tables for computing the amounts of tax to be withheld. Quarterly reports on form 96-W, comparable to the Federal report form W-1, accompanied by a remittance for the amount of tax withheld, were to be filed showing the amount of total payroll, the amount of tax withheld, and any adjustment for preceding quarters.

After the close of the calendar year, or within thirty days after the termination of employment of any employe, the employer was required to furnish the employe an individual earnings statement, form 99-W, corresponding to the Federal withholding statement form W-2, showing the total amount of wages paid to the employe for the period of his employment during the year and the total amount withheld for both Federal and State income tax purposes. Employers with large payrolls were permitted to make up their own printed forms of individual earnings statements, conforming with State and Federal regulations so that both the State and Federal requirements could be

met in one operation, thus eliminating a duplication of work and additional clerical expense.

A copy of each individual earnings statement was to be filed along with an annual reconciliation report, form 96-R, which for all practical purposes was the same as Federal form W-3. Form 96-R reported the number of individual earnings statements which were transmitted therewith and the total amount of tax withheld by the employer for the entire year. The 1948 State reconciliation report either listed the name, address, wage payments, and the amount of tax withheld for each employe; or two copies of form 99-W for each employe were attached. This requirement alternative for the 1948 annual reconciliation report was necessary owing to the fact that the employe did not have to attach a copy of his form 99-W to his 1948 individual income tax return. This, of course, was a mistake which was corrected in the following year by simply adopting the Federal procedure requiring a copy of the employe's annual individual earnings statement to be attached to his personal income tax return. Thereafter, on form 96-R the employer merely attached one copy of form 99-W for each employe, listed the total number of individual earnings statements, and reported the aggregate amount of tax withheld reconciled to his quarterly remittances.

The information statement, form 99, comparable to Federal form 1099, was still used where income payments to individuals were made but which payments were not subject to State withholding. The annual information report and affidavit, form 96, was still used to report the number of separate forms 99 filed.

In general, Oregon, backed by the Federal experience and because most employers were familiar with the Federal system, had simply adopted as much of the current Federal reporting procedure as was absolutely essential for effective State withholding tax administration.

Withholding Tax Department and Enforcement Procedure

The organizational inception of an efficient withholding tax department was hampered because of the overcautious approach made initially by the commission and because immediate adequate working space was not easily obtainable. Generally speaking, however, after an introductory skirmish, the administration of the withholding tax presented few difficulties in cost or personnel.

The income tax division of the State Tax Commission from its beginning was organized into functional units, such as the auditing department, legal department, and accounting department. A special withholding tax department was organized within the income tax division to function primarily as a clerical unit with responsibilities including the routine policing of employer compliance and making refunds. This department was integrated into the functional system of the division and simply became one cog in the over-all income tax processing and enforcement machine. In brief, the new department was a clearing house on all questions pertaining to the withholding tax. It distributed withholding tax forms; processed the employer reports, maintaining a permanent file; checked for

delinquent employer filings; and it had the mechanical function of making refunds after a rapid "preaudit" had been accomplished by the auditing department. Withholding tax cash control and bookkeeping were at first a dual function between the withholding tax and accounting departments. At the present writing, however, the accounting department has complete bookkeeping control. Detailed auditing and checking were left entirely to the office auditing staff of the audit department, including the mechanical follow-up action, while any special investigation was handled by the field auditing staff of that department.

It is not possible to determine precisely the costs directly attributable to the administration of the withholding tax act because it is difficult to isolate all the cost factors involved. The cost of personnel, equipment, and office supplies, including reporting forms, which can be directly allocated to the withholding tax department is currently averaging less than $10,000 a month or approximately $100,000 a year. Any total amount of expense which can be allocated to the withholding tax department means very little as an index to additional income tax collection costs, because it does not take into consideration that a large percentage of these would be properly allocated to other departments if withholding were not in effect. As a matter of fact, when all the factors are considered, it more obviously seems that the withholding tax will reduce, rather than increase, the over-all income tax administrative costs. These factors are:

1. *Installment Tax Payment Accounts.*—According to the 1948 records, 122,163 individuals took advantage of installment payment of their 1947 State income taxes. The cost of preparing and mailing the installment notices averaged about $5,000 a quarter, and the cost of processing, banking and bookkeeping in connection with these accounts represents a similar expense. During the first part of 1949 there were more than 17,000 of these accounts deliquent for one or more quarters, and deliquency notices had to be mailed. Then, under the law, formal distraint warrants were issued on unpaid balances and forwarded to the county sheriffs for collection. Most of these unpaid balances were small and the cost of collecting and trying to collect was highly excessive for the amounts involved. In 1949, practically all of these small and doubtful accounts were eliminated by the withholding tax, and the total number of installment tax payment accounts dropped to 33,867.

2. *Delinquent Returns.*—The 1947 information returns, forms 99, filed by employers, revealed that about 50,000 individuals received taxable income in 1947 without filing returns. The cost of apprehending and collecting the tax from these delinquents would have been reduced substantially by tax withholding.

3. *Taxable Returns Filed Without Proper Remittance.*—Over 10,000 persons sent in their 1947 taxable returns without remittances. Apparently, many taxpayers had other obligations to meet and could not pay even a quarter of a year's tax at the end of the filing period. The withholding tax, effective for the tax year 1948, prevented a large recurrence of these delinquencies during the 1949 filing period and the cost involved in final collection. As compared with the 1947

"no-remits," less than 3,500 taxable 1948 returns had been filed without proper remittance at the end of the 1949 filing period.

4. *Rush at the End of Filing Period.*— Approximately 50 per cent of the 1947 individual returns were filed during the last week of the 1948 filing period, and long lines of taxpayers waited at both the Salem and Portland offices to get service. During the 1949 filing period, the withholding system substantially reduced this last-minute rush and permitted the income tax division to render more economic and efficient service in the over-all tax administration job.

Currently, on an annual basis, total withholding tax receipts amount to $12,500,000, with approximately $2,000,000 being refunded. The number of 1948 forms 99-W on hand January 1, 1950, for which no 1948 individual income tax returns were filed totaled 567,434, upon which $2,160,198 had been collected through withholding. Of this amount, it is estimated that $600,000 is a windfall gain, that is, that refunds are due but will not be claimed. The remainder, it is estimated, will actually be tax assessments when and if returns are filed. Withholding automatically had prevented a substantial loss of revenue on thousands of uncollectible accounts and on hidden or small tax liabilities otherwise unassessed because of the prohibitive cost involved in enforcing collection of such minor amounts.

It appears that costs of administration of the withholding tax are comparatively low in view of the administrative benefits received by such a frontline current-at-the-source enforcement system. Actually, the unclaimed refunds alone, amounting to $600,000, constitute a substantial windfall gain which more than pays for the cost of administering Oregon's collection-at-the-source system.

Analysis of 1948 Returns

As anticipated, withholding tax collections for the year 1948, representing three quarterly payments by employers, amounted to a little over $9 million. Last-quarter employer remittances were due and payable January 30, 1949, and with these payments, the total taxes withheld on salary and wage payments during 1948 amounted to $12,548,748.50. The number of employer returns and the amounts of quarterly payments received for the tax year 1948 were allocated as follows:

Quarter	Number of Returns	Withholding Tax Collected
1st	36,139	$ 2,796,117.49
2nd	36,792	2,933,510.80
3rd	42,792	3,437,264.71
4th	38,351	3,381,855.50
Total	154,074	$12,548,748.50

Withholding tax collections derived from 1948 salary and wage payments, amounting to $12,548,748.50 as of December 31, 1949, were largely applied as tax credits or refunds on 1948 individual income tax returns filed during 1949.

Personal income tax returns for the tax year 1948 filed during 1949, upon which a refund had been claimed, totaled 200,762. Of this total, 136,554 were taxable returns, 49,345 were nontaxable, and 14,863 had preaudit adjustments which reclassified them as having a tax due instead of a refund, or which reduced the amount of refund

to less than $2.00. Of the 185,899 returns upon which refunds were actually due, the commission, by December 31, 1949, had issued 171,690 refund checks, aggregating $1,823,769.19. The amount of tax withheld on these 171,690 returns totaled $3,614,311.90 and the aggregate amount of tax shown to be due was $1,790,542.71.

In addition to the amounts of withholding taxes applied as tax credits or refunds, $35,584.29 was transferred by the commission as a credit to old delinquent accounts.

The tabulation of the 1948 taxable individual returns classified according to adjusted gross income brackets is presented in Table 4. A comparison of the 1947 data, appearing in Table 3, with the 1948 data reveals that the number of taxable returns decreased from 505,693 in 1947 to 375,628 in 1948. This decrease is attributable to (1) a change in the individual income tax return which permitted married couples taking advantage of the 1947 State community-property law to file one form, which decreased the total number of returns filed by approximately 120,000; and (2) the increase in personal exemptions allowed taxpayers on 1948 incomes, which reduced the number of taxable returns filed by an estimated 50,000. Proper adjustment for these two important factors would disclose that the number of 1948 taxable personal returns, in reality, increased over the 1947 taxables by about 40,000. This increase was partly due to the economic expansion in 1948 and in some measure can also be properly attributed to the State withholding tax

TABLE 4

ANALYSIS OF 1948 TAXABLE INDIVIDUAL RETURNS CLASSIFIED ACCORDING TO ADJUSTED GROSS INCOME BRACKETS [a]

(Money figures in thousands)

Adjusted Gross Income Bracket	Number of Returns	Adjusted Gross Income	State Income Tax: Withheld	State Income Tax: Additional Tax Due	State Income Tax: Refund Due	State Income Tax: Tax Assessed	Effective Tax Rate on Adjusted Gross Income (Per Cent)
Under $ 1	7,020	$ 6,689	$ 46	$ 4	$ 38	$ 12	0.18
$ 1– 2	46,110	75,501	520	141	172	489	.65
2– 3	92,365	246,533	1,794	785	606	1,974	.80
3– 4	102,028	371,020	2,806	1,355	589	3,572	.96
4– 5	54,869	256,581	1,862	1,438	93	3,207	1.25
5– 7	43,669	265,293	1,753	2,584	15	4,322	1.63
7– 10	15,007	128,086	546	2,358	....	2,904	2.27
10– 20	10,030	144,145	305	4,617	....	4,922	3.41
20– 30	2,372	58,968	79	2,308	....	2,386	4.05
30– 40	894	33,928	56	1,399	....	1,455	4.29
40– 50	428	19,916	12	839	....	851	4.27
Over 50	836	83,450	64	3,255	....	3,319	3.98
Total	375,628	$1,690,111	$9,843	$21,082	$1,512	$29,413	1.74

[a] "Adjusted Gross Income" is gross receipts less trade and business expenses (including the expenses of acquiring an income) but without allowance for personal deductions, exemptions, and dependency credits for tax purposes. "Adjusted Gross Income" from salaries and wages substantially represents total income before taxes.

NOTE: Details may not add to totals because of rounding. Effective rates computed from unrounded data.

law. The number of taxable and nontaxable returns filed 1945-48 is shown in Table 5.

TABLE 5
NUMBER OF PERSONAL INCOME TAX RETURNS FILED

Tax Year	Taxable	Nontaxable	Total
1945	277,765	79,481	357,246
1946	305,505	86,222	391,727
1947	505,693	41,104	546,797
1948	375,628	88,379	464,007

The total amount of State tax assessed on 1948 individual returns was approximately the same as that assessed on the 1947 returns. This is astonishing in view of the fact that in 1948 the income tax base had been narrowed by an increase in personal exemptions. According to the 1948 data, if personal exemptions had remained the same as established in 1947, over $5 million would have been assessed in addition to the $29,413 thousand as tabulated in Table 4. The number of 1948 forms 99-W on hand January 1, 1950, upon which $2,160,197.55 had been collected through withholding but for which no personal returns had been filed, largely reflects additional assessments and windfall gain not indicated in the total 1948 tax assessment figure.

In reconciling the total amount of withholding tax actually collected for the tax year 1948, $12,548,748.50, with the total amount shown to be withheld in Table 4, the nontaxable returns must be taken into consideration. Eliminating the amount collected through withholding but for which no personal returns had been filed, $2,160,-197.55, from the total amount of withholding tax collected and allocated to the tax year 1948 results in a balance of $10,388,550.95 collected in advance on both taxable and nontaxable returns. The amount of refunds on nontaxable returns totaled $545,328.79 which, when subtracted from the amount withheld on the total personal returns filed, reconciles with the aggregate amount of tax withheld as reported on the 1948 taxable returns, $9,843,-222.16.

According to the withholding tax department, the total amount of withholding tax refunds issued for the tax year 1948 will be a little over $2 million when the accounts are finally closed.

The average effective rate of State tax amounted to 1.74 per cent on 1948 adjusted gross income, and almost 80 per cent of the 375,628 taxable returns received were filed by taxpayers who reported the major portion of their income as salary and wage payments. According to the statistical analysis in Table 4, the largest concentration of taxable returns filed fell in the $3,000-$4,000 adjusted gross income bracket having an average effective tax rate approximately in line with the 1 per cent withheld on total wage payments as provided by law. Based on 1948 rates and exemptions, a single person's effective rate of tax reaches 1 per cent at $1,800 of adjusted gross income; whereas, the effective rate of a married couple filing on a community-property basis reaches 1 per cent at an adjusted gross income of $3,600, and married couples with two dependents would have an adjusted gross income of $4,100 before their effective rate would amount to 1 per cent.

Despite the fact that the State withholding tax concept had been conceived and designed on a broader personal income tax base, the statistical analysis

of the 1948 returns reveals that the rate of 1 per cent withheld on a narrowed tax base in 1948 was justified not only because it still conformed to the original legislative purpose of State withholding, but also because it provided, for that year, the most practical rate from the administrative point of view.

Withholding from Farm Wages

At the beginning of 1948, the new and small withholding tax department was flooded with inquiries which were answered not only by complying with the individual requests, but also by releasing mimeographed " question and answer " papers of a general nature. Most of the inquiries were from farm employers; and the commission, becoming aware of the prevailing employer uncertainties, released separate instructions applicable to tax withholding on farm wages. These supplemental instructions pointed out that no exception was made by the law for employers of labor harvesting seasonal crops, even though the record keeping of withholding wages might be particularly troublesome. Methods and suggested procedures to follow in the case where the farmer employed transient or temporary help whose earnings were small and whose periods of employment extremely brief were set out with the objective of enabling the farmer to fulfill the requirements of the law with the least possible record keeping.

Despite these guides, many agricultural employers maintained that their cost of compliance was running ridiculously high in comparison with the amounts withheld and, as a consequence, many came to the conclusion that it would be cheaper simply to pay the amount of withholding tax due out of their own pockets. Accordingly, a number of employers of temporary harvest help paid quarterly the 1 per cent tax on their total payroll without withholding from wages paid and submitted their annual returns without including information as to their employes. This type of action was contrary to the expressed purpose of the withholding tax act, and it did not solve the employers' problem of filing forms 99-W for each employe.

The harvest labor force in Oregon is substantially made up of migratory and casual workers, including school children, and in many cases the problem of withholding 1 per cent of wages paid to this group was alleged to be further aggravated by their threat to work for an employer who actually was not acting as a withholding agent for the State as defined by law. Since a segment of the seasonal farm labor force is a low-income group living at or close to the subsistence level, even a small reduction in current money wage payments is vigorously resisted. The imposition of State withholding upon this group apparently had placed the complying employer, who actually tried to follow withholding instructions, in a very awkward positon. It also must be kept in mind that at this time an employes' market prevailed and other industry was competing with agriculture for this type of labor.

The higher the rate of labor turnover, the more exasperating was the problem confronting these employers of seasonal farm labor. Testimony was presented to the legislative tax committees in 1949 which indicated that the industry had such a high turnover of labor that in order to keep 100 people

steadily employed during a month to harvest crops, 800 separate hirings had to be made. Other testimony indicated that certain agricultural employers had such a large labor turnover that the cost of compliance in withholding tended to equal the aggregate amount withheld.[9] Several of the local State Employment Service Offices estimated that employers of seasonal farm labor having housing facilities had an average monthly turnover in their labor force of 25 per cent, while the agricultural employers who depended upon local area workers driving to the job during harvest season had an average monthly turnover of 50 per cent. The extreme example was those employers who came into town and recruited and personally transported farm help to the fields. This employer group had a labor turnover of from 40 to 90 per cent per trip, depending upon the crop to be harvested.[10]

In general, Oregon's withholding tax concept as actually applied to the wages of labor connected with the harvesting of seasonal agricultural crops did not adhere to the previously stated standard or criterion of striking a proper balance among the State in its cost of administration, the employer as a collecting agent, and the taxpayer and his ultimate tax liability.

The State's expense in preparing and processing the additional large volume of forms and returns applying only to the casual farm labor group was highly disproportionate to the amount of net revenue involved.

The farm employer acting as a withholding agent had a disproportionate compliance burden when withholding on casual farm employes whose earnings were small and whose period of employment extremely brief, and, in addition, the publicity of an extremely disproportionate compliance cost was undermining the over-all acceptance of the act.

Since the marginal farm worker did not potentially have a personal income tax liability, a State withholding tax imposed upon him at a flat rate, with no provision for personal exemption and dependency credits and with only the provision for adjustment at the end of the fiscal period, had the possible effect of impinging upon his subsistent level.[11] Although a refund would be made later if a return was filed, he was desperately in need of every penny he earned while he was working. These workers were not only unstable in employment but also in residence, and few of them fully understood the State's personal income tax law and subsequently very few

[9] Unpublished minutes of the House Committee on Taxation, 1949 (Salem, Oregon), Ralph D. Moore, Chairman; and the unpublished minutes of the Senate Assessment and Taxation Committee, 1949 (Salem, Oregon), Dean H. Walker, Chairman.

[10] Labor turnover in seasonal crops is the product of several factors and is not confined to the casual character of the labor force. It varies between crops, being high in hand-picked beans, berries, and hops, and low in machine-picked peas, potatoes, and sugar beets. It varies with the weather, being high when rain enforces long periods of idleness, low when uniform weather prevails. It is particularly influenced by crop conditions on individual farms and wage rates, for when these combine to provide good earnings, turnover is low even in berries, hops, and beans. It depends in no small part on the managerial ability of the farmer, his treatment of workers, provision of adequate sanitary facilities, efficient flow of work and materials, and condition of the crop. Generalizations about turnover are hazardous and often misleading.

[11] In a technical sense, however, where the casual farm employe was an Oregon resident for only a part of a year, the allowable exemption and credits would be apportioned according to the fraction of year such status was occupied (section 100-1613, O.C.L.A.).

would actually bother to file a return to receive a refund.

There was little justification for the State's withholding tax concept to include, in general terms, the casual farm wage earner group, and there definitely was no advantage of a collection-at-the-source system as an administrative measure applied to this group. However, Oregon's withholding concept as applied to seasonal farm wages other than on the casual farm employe was administratively justifiable, as long as the proper balance was not vitally disturbed among the taxpayer, the employer, and the State.

Amendments, 1949

The first tax debate which arose during the regular session of the 1949 Legislative Assembly was on the issue of outright repeal or modified retention of the withholding tax act. It did not surprise tax administrators when legislative efforts to secure enough votes for repeal were not successful, and that the real withholding issue soon centered on workable amendments to the law.

The original concept of State withholding intended that a current collection system on salary and wage payments have as broad and general a base as the administrative ingenuity of the State permitted. One year of practice, however, had revealed genuine need for revision of that concept to fit a sound administrative standard while still adhering to the principal purpose of the original withholding plan. If the basic withholding purpose was to be maintained, exemption should be extended only to wage payments made to the casual worker, who potentially never had income in the aggregate which annually reached taxable proportions under the exemptions and credits allowed in the current personal income tax law. Withholding on this type of wage payment had proved to be administratively impractical in Oregon during 1948.

If there was little justification for Oregon's withholding law to include the casual farm wage earner group, then the question arose whether exemption should also be granted to wage payments made to seasonal workers of other major Oregon industries, such as timber harvesting and food processing. The question related to exemption by class. Precisely where and how was the line to be drawn without undermining the very purpose of State withholding?

Legislative action on amending the withholding law finally concentrated on two bills, House Bill 41 and House Bill 124.

House Bill 124 had a much broader concept of a State withholding tax base than did House Bill 41. The amendment to the State withholding law, as embodied in House Bill 124, merely simplified employer reporting by providing that the employer would not be required to report to the commission any particulars concerning the name, address, amount of wages paid, or the amount of tax deducted, with respect to an employe to whom the employer paid less than $100 during the calendar year, unless at the specific request of the employe; but did not relieve the employer from the duties of withholding the tax from the wages paid to such an employe and of remitting these amounts to the commission. This change, which had considerable administrative merit, more or less broke with the original withholding concept which

was simply a method of collecting the personal income tax, not a supplementary tax. It had, for all practical purposes, redefined withholding more in line with a theory of a gross income tax on salaries and wages for those in the lower income brackets, and yet did not include other income payments made to individuals. On the other hand, House Bill 41, which was finally adopted, simply eliminated withholding from wages paid to certain employes of a casual nature and did not exempt all agricultural employes or all seasonal workers.

Amendments to the withholding tax law, Chapter 410, Oregon Laws 1949, became effective June 1, 1949, and provided, in part, that no amount would be deducted or retained from:

> . . . (c) wages paid for domestic service in a private home, a local college club, or a local chapter of a college fraternity or sorority, (d) wages paid for casual labor not in the course of the employer's trade or business, (e) wages paid to part-time employes whose services to the employer consist solely of labor in connection with the planting, cultivating or harvesting of seasonal agricultural crops, or (f) wages of seamen which are exempt from garnishment, attachment or judgment under sections 596, 597, 598, and 601 of Title 46 of the United States Code.

The withholding tax concept in 1949 did not include wages paid by farm employers who hired extra help to engage in the planting, tilling, or harvesting of agricultural crops, but the concept retained the withholding principle as to all other farm employes. The exemption granted farm employers did not in any way apply to full-time employes engaged in planting, cultivating, or harvesting, along with general farm work; it did not apply to part-time farm labor employed for indeterminate periods; it did not apply to seasonal work, even though related to agriculture, other than planting, cultivating, or harvesting.

The exclusion from the withholding tax of wages paid to certain farm employes was a restricted and narrow exemption, its purpose being solely to exclude wages paid employes having no annual State income tax liability and to eliminate the useless withholding mechanics applied to this group by the employer and the State.

The exemption from withholding on wages paid domestics and to casual labor not in the course of an employer's trade or business was granted on the same theory as that allowing exemption of wages paid to casual farm workers.

The exemption of wages paid to seamen was simply a recognition by statute of court decisions in this matter.

The effect of these limited exemptions on 1949 withholding tax collections was slight. Total withholding tax collections allocated to 1949 amounted to $12.3 million as compared with the $12.5 million withheld in 1948.

Paragraph 5 of the original act, exempting employers from withholding on their aggregate payroll when it did not exceed $50 during the calendar month, was deleted entirely from the law by Chapter 410, Oregon Laws 1949. Oregon's withholding concept no longer included a payroll minimum below which it was not necessary to withhold.

The original law provided refunds would not be made where the amount of the excess withheld was less than $2. This provision was inserted in the origi-

nal act to do away with the administrative cost involved in making a refund of $2 or less. However, the constitutionality of this provision was questionable and the law was amended in 1949 to read as follows:

> . . . No refund shall be made to an employe who fails to file a return under section 110-1616, as amended, within two years from the due date of the return in respect of which the tax withheld might have been credited. In the event that the excess tax deducted is less than one dollar, no refund shall be made unless specifically requested by the taxpayer at the time such return is filed and in no event shall such excess be allowed as a credit against any tax accruing on a return filed for a year subsequent to the year during which such excess was withheld.

The refund minimum was reduced from $2 to $1, as it was believed this would be sufficient to prevent disproportionate administrative costs in processing very small refunds, and, at the same time, refunds would not be denied if specifically requested, which remedied the question of constitutionality. However, under the withholding tax concept as applied in Oregon, there seemed little justification for not automatically making refunds regardless of the amount involved, especially in view of the fact that withheld amounts collected in excess of given tax liabilities were not voluntary overpayments. For the tax year 1948, the $2 limitation barred refunds on approximately 6,000 returns.

The limitation on the time in which an employe could file a return to claim a refund was a logical administrative amendment.

Chapter 410, Oregon Laws 1949, also clarified withholding tax credits applied by taxpayers on returns filed on a fiscal year basis, since the original law was not specific on this subject.

Amendments in 1949 also effectively strengthened the administration of the withholding tax act by providing specific penalties, fines, and punishments for employers who violated the withholding provisions. Penalties and interest became a lien on the entire assets of an employer delinquent in the payment of tax withheld. The provisions of section 110-1627, O.C.L.A., relating to penalties, interest, misdemeanors, and arbitrary assessments were applicable to employers subject to State withholding, and for these purposes any amount deducted or required to be deducted and remitted to the commission was to be considered a tax of the employer, and with respect to such amounts he would be considered as a taxpayer. Employers violating the withholding act without fraudulent intent were subject to a maximum penalty of $1,000 for any failure to comply with the law. Since the employer is required by law to file a return to cover each calendar quarter as to the amounts of money withheld, together with remittance, and an annual reconciliation return, the possibility exists that he could be held liable for a number of separate violations over a calendar year, each of which could cost him a penalty of $1,000. It would not be necessary for the State to prove willful intent and fraudulent purpose on the part of the employer in order to recover these penalties. However, if such intent and purpose did exist and was established, the employer would be subject to an additional $1,000 fine and imprisonment.

By July 1, 1949, the withholding tax department estimated that about 2,500

employers had neglected to report and remit payroll withholding tax deductions collected by them in 1948. Positive identification had been made on about two-thirds of this group by January 1, 1950. By April 15, 1950, collections had been effected on approximately 1,000 of these delinquent accounts, while 415 employer accounts had been transferred to distraint warrants with a total withholding tax liability of $141,155.65.

The glaring imperfections of the withholding tax law had been removed with the 1949 amendments to the act, and, although the administration of Oregon's collection-at-the-source system was not devoid of problems in 1949, the mechanics of the system began to function smoothly and without conflict. At the close of 1949 the withholding tax department had an almost complete current register of employers with assigned identification numbers. Refunds claimed on 1949 returns were given a rapid-fire "preaudit" and refunds due were initiated at once.

Fiscal Effects and Conclusions

The question whether the personal income source of taxation should be utilized exclusively by the Federal Government while the State resorted to other sources of revenue was resolved in Oregon in 1930. A personal income tax at the State level was enacted for additional revenue for general governmental purposes rather than increasing taxes on property, and was politically justified on the ground of "property tax relief." Other factors, of course, played an important part in the enactment of the tax. For example, a personal income tax was in the direction of conforming to a recognized principle of modern taxation in directly taxing individuals according to ability to pay. Oregon's personal income tax had confined itself to a broad-based tax with moderate progression. Net income was selected as a logical yardstick to measure ability to pay, and a progressive rate feature was selected as a means to define and to defend the economic and social objectives of the state.

If the over-all State tax structure was to have other than regressive elements, Oregon would have to depend upon an adequate contribution from the personal income tax to support State government. By 1937, it was generally accepted that both personal and corporate income taxes should provide the largest share for State general fund expenditures, and, in recent years, Oregon relied more and more on personal income taxation to finance the requirements of the State. When personal income taxation begins to play an important role at the state level of government, effective administration is imperative for both equity and success.

The personal income tax base, as defined by law in 1947, was broad in scope, patterned to cover the small incomes. Ineffective administration would, of course, narrow that statutory base and limit the productivity of the tax. One of the most important developments to assure reasonable income tax compliance was the information-at-the-source device of checking self-assessments. To implement effectively the administrative machine to assure a more positive and current procedure, a withholding technique of income tax collection had to be developed at the state level.

The withholding tax concept as developed in Oregon was essentially

concerned with a wage and salary withholding system; administrative simplicity had dictated a flat rate on total wage and salary payments with little exception. Since the effective rates of the State income tax were moderate and nowhere near those of the Federal tax, the compliance and administrative burdens attendant to fitting a graduated withholding schedule into the State income tax framework could not be logically justified.

The administrative and compliance goal of simplicity had also sacrificed to some degree the administrative principle of equal treatment for all taxpayers. Wage payments were currently withheld as the wage earner's tax liability grew while at the same time the non-wage income recipient could be on an installment basis of paying a prior year's personal income tax liability. This problem of equity could be a pronounced issue in the transitional period of making the shift from the old to the new system of personal income tax collection. The introduction of a withholding device for convenient tax payment would engender a "doubling up" of personal income tax payments for salary and wage earners during the transitional tax year. If equal treatment was to be accorded all taxpayers, then the non-wage income group should be placed on a comparable pay-as-you-go basis through declarations of estimated State tax and quarterly advance payments. However, the State withholding concept was developed as an expedient administrative device and did not yield to a pay-as-you-go concept as such. The Oregon plan had limited itself to the development of a strategic technique of collecting taxes at the source. Placing all groups on a pay-as-you-go basis would, if policed, guarantee a more prompt and certain flow of income tax revenue to the State and would solve the lack of administrative uniformity in tax payment and collection procedure, but compliance and administrative requirements then would not be simply confined to employer returns; the plan would involve the additional cost in setting up, processing, and policing quarterly non-wage taxpayer accounts. A strictly defined pay-as-you-go concept would not lend itself, at the state level, to administrative efficiency which the Oregon withholding tax plan was designed to achieve.

As the Oregon withholding system developed and was integrated into the State tax collection and employer accounting procedures, it synchronized tax collections with wage payments without difficulty. Public relations improved, and employers, as withholding agents, willingly cooperated with the State. Many employers expressed the opinion that the State withholding tax law was a needed service to their employes whereby taxes were paid without a sudden annual financial burden.

The majority of salary and wage earners were not opposed to the Oregon withholding plan of collecting State income taxes. Certain groups of organized labor, however, objected to the withholding concept applying 1 per cent on gross wages on the basis that "it discriminated against small wage earners who normally would owe no state income tax and that those in the larger income brackets would not have a sufficient amount withheld to cover their income tax liabilities in full." Nevertheless, when returns were filed, most wage earners felt that the State had rendered them a convenient pay-

ment service in arranging tax payments as deductions from their regular pay checks.

Oregon's withholding tax concept subscribed to the paternalistic philosophy of modern conditions in providing a convenient plan of paying taxes. Not only was the lag betweeen the receipt of income, in the form of wages and salaries, and the payment of the State income tax liability alleviated by the withholding device, but a general tax principle which goes back at least to the work of Adam Smith and his celebrated canons of taxation was appropriately applied. Withholding followed the principle, "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. . . ." [12]

Monetary policy some years ago was considered by a large segment of the professional economists of that generation as being the most important factor in public policy that could, by proper control, promote a more sound economy and raise the level of business activity. There is no doubt that the monetary policy has influenced and will influence the level of prices, but in recent years monetary control has played only a minor role while fiscal policy has received most of the professional and lay attention in the formation of a national policy to promote a healthy economy at high levels of business activity and full employment. Even small fiscal operations are given a great deal of weight when analyzing current economic conditions, and fiscal policy at the state level, especially when taken collectively, is no small factor in formulating a well-planned over-all fiscal policy. Historically, the fiscal operations of state and local governments have run contrary to an economically sound fiscal policy. This has been aptly called "fiscal perversity in boom and depression" [13] and some brave plans have been evolved to counteract the defect. However, little has been said in regard to the local problem of perversity in state fiscal operations and seasonal fluctuations. In other words, since a substantial part of the total state and local tax payments fall due and payable during the months of March and April, to say nothing of Federal tax payments during this period, personal outlays following slack winter months tend to have a depressing effect upon seasonal adjustments. This is indeed true in the case of Oregon where operations of the two basic and predominant industries, the agricultural and timber products industries, are drastically curtailed during the winter months. Placing major State tax payments on a current-collection-at-the-source basis seems a logical approach to mitigate the severity of this seasonal "dry period" in the Oregon economy. In this respect merchants and wage earners in general have responded favorably to the State withholding tax plan. When both Federal and State income taxes are on a withholding basis, taxpayers who have already satisfied income tax liabilities have a pleasant tendency to file their returns early, and a substantial group, especially in the lower income brackets, are receiving refunds instead of making tax payments at the end of an otherwise tight financial period.

[12] Adam Smith, *Wealth of Nations*, Book 5, chapter 2.

[13] Alvin H. Hansen and Harvey S. Perloff, *State and Local Finance in the National Economy* (New York, 1944).

Oregon's withholding tax concept can be defined as effecting both administrative and fiscal improvements in State finance. The important factors involved in the administrative and fiscal benefits derived under the Oregon withholding tax system are summarized as follows:

1. *Safeguard and Salvage Factor.*—Reduces tax delinquencies by improving personal income tax compliance procedure which substantially insures the collection of taxes before the ability to pay and the ability to collect disappear.

2. *Policing Factor.*—Increases administrative efficiency in the policing of individual taxpayers through a current and effective front-line enforcement program. Used as a strategic administrative technique of collecting the State personal income tax, the withholding tax establishes current policing machinery primarily aimed at the prevention of evasion and underreporting, either deliberate or unintentional. Secondarily, the withholding tax as a policing measure will firm up basic collections by means of its simultaneous pushing effect on both the employer and employe to disclose accurately salaries and wages either as an expense or income item.

3. *Administrative Cost Factor.*—Enforces collection at a minimum administrative cost and minimizes the cost ratio involved in the relation to each amount of tax due. Many times, under the old administrative method, the cost of enforcing collection of small amounts, if actually executed, would be more than the tax involved.

4. *Paternalistic and Public Relations Factor.*—Subscribes to a convenient payment basis by currently collecting taxes at the source. Maintains good public relations while enforcing the provisions of a broad personal income tax base through a current collection-at-the-source procedure of administration.

5. *Fiscal Control Factor.*—Places the State on a more sound fiscal basis by guaranteeing a more prompt and certain flow of income tax revenue while not obstructing seasonal adjustments or creating a "dry period" in the State economy.

6. *Expedient Revenue Production Factor.*—Provides an immediate production of revenue in the transitional period without imposing a new or supplementary tax.

EQUALIZATION OF PROPERTY TAX ASSESSMENTS IN CALIFORNIA

MALCOLM M. DAVISSON and WILLIAM K. SCHMELZLE *

DESPITE the adoption of new sources of revenue in recent years, the general property tax still continues as the mainstay of local revenue systems in California. During the 1948-49 fiscal year property taxes levied for the support of counties, cities, school districts, and other units of local government exceeded $784 million.[1] The assessed valuations to which local property tax rates are applied are determined partly by local assessors and partly by the State Board of Equalization. Assessed valuations also enter into the formulae by which substantial amounts of State funds are allocated to local units of government and into the eligibility requirements for the receipt of various State aids. Equity in the distribution of the property tax burden, in the allocation of State funds to local governments, and in the payment of State aid to individuals requires equalization of assessments made by numerous independent assessing agencies.

Reasons for Equalization of Assessments in California

Prior to amendment of the California Constitution in 1910, the State and its political subdivisions derived their principal support from the ad valorem taxation of general property. The property tax rate for State purposes was applied to assessed valuations determined by county assessors [2] which formed the base upon which county taxes were levied. Equalization of individual assessments within counties was the responsibility of local boards, but the State Board of Equalization was charged with the duty of equalizing the valuation of taxable property among the several counties of the State [3] in order to avoid an unequal distribution of the State property tax among counties.

The constitutional amendment of 1910 [4] withdrew from local ad valorem taxation the operative property of cer-

* Mr. Davisson is professor of economics and chairman of the Department of Economics at the University of California, Berkeley. Mr. Schmelzle is associate professor of business administration at the same institution.

[1] State Controller, *Annual Report of Financial Transactions of Municipalities and Counties of California, 1949.*

[2] Except for the franchise, roadway, roadbed, rails, and rolling stock of all railroads operated in more than one county in the State which were assessed by the State Board of Equalization (California Constitution, Article XIII, sec. 10).

[3] California Constitution, Article XIII, sec. 9. The constitutional provision for State equalization, as interpreted by the courts, restricts the authority of the State Board of Equalization to increasing or lowering the entire assessment roll of any county but not the individual assessments (*Wells Fargo* v. *State Board of Equalization*, 56 Cal. 194 [1880]; *San Francisco and N.P.R.R.* v. *State Board of Equalization*, 60 Cal. 12 [1882]). An order of the State Board of Equalization increasing an assessment roll requires an increase in the valuation of all property on the roll other than money (*People* v. *Dunn*, 59 Cal. 328 [1881]; *Schroeder* v. *Grady*, 66 Cal. 212 [1884]).

[4] California Constitution, Article XIII, sec. 14.

tain classes of public utilities[5] and imposed upon such companies "in lieu" taxes on gross receipts at prescribed rates which were subject to change by two-thirds vote of the legislature. Special taxes were also provided for bank shares,[6] insurance companies,[7] and the franchises of corporations not subject to the above taxes.[8] Revenue from these sources was to provide for the support of the State government, which normally would not be required to levy an ad valorem tax on property.[9] Local governments were to derive their revenue principally from ad valorem taxation of "common" property—the general property tax base as determined by local assessors.

The 1910 amendment left the constitutional language with respect to intercounty equalization unchanged;[10] but the abandonment of State ad valorem taxation removed the need for such equalization by a State agency, and it was not until the adoption of a constitutional amendment in 1933 that this function again assumed significance.

The constitutional amendment of 1933[11] deleted as of January 1, 1935, the "in lieu" gross receipts taxation of public utilities and provided for ad valorem assessment of all property of such companies and of intercounty pipelines, flumes, and canals by the State Board of Equalization. All such State-assessed property was to be "subject to taxation to the same extent and in the same manner as other property."

The return of State-assessed property to local tax rolls,[12] with the application of a common tax rate to both State and locally determined valuations, again required equalization on a State-wide basis if such property was to be taxed to the same extent and in the same manner as other property. The State Board of Equalization undertook to equalize all counties on a common level of 50 per cent, and after extensive study and public hearings ordered the equalization of county assessment rolls in thirty-four counties through percentage adjustments of 1935 valuations. In three counties reductions of 10 per cent were ordered; in the remaining thirty-one counties increases ranged from 5 to 85 per cent.[13] Three additional county rolls were increased in 1936, and the rolls of three counties which had been raised in 1935 were again raised in 1937.[14] The State Board of Equalization reported that "For the year 1938 studies indicated that no adjustments

[5] Railroad companies (including street railways), car, express, telephone, telegraph, gas, and electric companies [California Constitution, Article XIII, sec. 14(a)].

[6] California Constitution, Article XIII, sec. 14(c).

[7] *Ibid.*, Article XIII, sec. 14(b).

[8] *Ibid.*, Article XIII, sec. 14(d).

[9] Provision was made for a State property tax levy in the event that the above-mentioned revenues were deemed insufficient to meet the annual expenditures of the State [California Constitution, Article XIII, sec. 14(e)]. With the exception of a small tax levied for a few years in connection with the Panama-Pacific International Exposition in 1915, there has been no State property tax since 1911.

[10] California Constitution, Article XIII, sec. 9.

[11] *Ibid.*, Article XIII, secs. 14, 14½.

[12] In 1949 State-assessed property returned to county assessment rolls exceeded $1.5 billion. For the State as a whole such property accounted for 11.5 per cent of total valuation subject to county taxation, with a range of from 5.2 per cent in Del Norte County to 67.6 per cent in Amador County. State-assessed property returned to city assessment rolls was $855 million (*Annual Report of the State Board of Equalization, 1948-49*).

[13] *Biennial Report of the State Board of Equalization*, 1935-36, p. 8.

[14] *Ibid.*, 1935-36, p. 8; 1937-38, p. 8.

were necessary to maintain the uniform level upon which all counties are now equalized." [15] No further adjustments have been made to date.

The State Board of Equalization is also charged with the assessment of private cars operated over railroads.[16] The board is directed to equalize the value of such private cars with the average assessed value of tangible property throughout the State as fixed for the purposes of county taxation. A tax for State purposes computed at the next preceding year's average rate of property taxation is levied in lieu of all other State, county, municipal, or district ad valorem taxes. This method of taxing private cars by the application of an average property tax rate adjusted to conform to the assessment level prevailing among the counties presents an additional reason for equalization.

Equalization of assessments is important, further, in connection with the property tax exemption for veterans. The California Constitution provides that property to the amount of $1,000 owned by veterans resident in the State shall be exempt from taxation when the claimant does not own property valued at $5,000 or more.[17] By common practice the $1,000 exemption is in terms of the assessed valuation of taxable property. The constitutional exemption thus varies in significance depending upon the assessment levels prevailing among the several taxing jurisdictions.

Assessed valuations also enter into the formulae for allocating State funds to local units of government and for determining eligibility of individuals to receive various State aids. In 1944 California adopted the principle of allocating State funds to local school districts in amounts sufficient to guarantee a minimum education program throughout the State. To attain this minimum or foundation program for each unit of average daily attendance, the State first apportions funds to local districts for basic aid. Above this basic aid grant, the local district is required to raise an amount of property tax revenue equal to the yield of a uniform qualifying tax rate applied to the district tax base. If the sum of State basic aid and property taxes raised by local effort falls short of providing an amount per unit of average daily attendance equal to the amount prescribed by the State as a minimum guaranteed program (foundation program), the State allocates supplementary aid sufficient to provide the foundation program amount.[18] The amount of State aid necessary to equalize educational opportunity throughout the State is determined largely by the extent of the local district property tax effort which is measured by the amount of property tax revenue it can raise at a prescribed (qualifying) maximum tax rate. Thus school districts located within counties where assessment levels are high are at a disadvantage with respect to State equalization aid grants in comparison with those located within counties with low assessment levels. In

[15] *Ibid.*, 1937-38, p. 8.

[16] *Cal. Stats.* 1941, ch. 41; amended by *Cal. Stats.* 1945, ch. 501; *Cal. Stats.* 1947, chs. 665, 860; *Cal. Stats.* 1949, ch. 726. "Private car" includes a passenger car, sleeping car, dining car, express car, refrigerator car, oil or tank car, horse or stock car, fruit car, or car designated for the carrying of a special commodity, operated upon the railroads in this State.

[17] California Constitution, Article XII, sec. 1¼.

[18] The foundation program per unit of average daily attendance in elementary schools currently amounts to approximately $148. Provisions regarding equalization aid are set forth in the *Education Code*, Div. 3, ch. 15, art. 10, secs. 7091-95.

addition to State aid in connection with the foundation program, the legislature in 1947, 1948, and 1949 appropriated special sums to aid so-called distressed school districts [19] where sudden large increases in enrollments had taxed physical facilities and teaching staffs to maximum limits. In these allocations the effort of the local district, as measured by its property tax rate and the closeness to which it had approximated its bonded debt limit, was among the factors considered. School districts located within counties where the level of asessed to actual value of property was low could qualify for such State aid earlier than others in high-level assessment areas.

State grants for aid to the needy aged, blind, and children are also affected by the ratios of assessed to actual valuations of property prevailing in the different counties. The eligibility requirements stipulate in terms of assessed valuation the amounts of real property which may be owned by applicants for such aid; [20] and thus counties with low assessment levels will grant assistance payments to cases which in other counties with higher levels of assessment would be unable to qualify. The present law with respect to indigent aid also relates grants of State funds for this purpose to local assessed valuations. The amount of the State assistance grant is determined by the extent of local effort to meet these costs as measured by the magnitude of the local property tax rate. As the local tax rate moves upward (from \$0.08 to \$0.16 per \$100 of assessed valuation) the size of the State grant also moves upward (from 80 per cent of the total cost of relief to 95 per cent).[21] Here, again, differences in levels of assessment among counties affect the tax rate magnitudes and hence the distribution of State funds to the counties.

The practice of imposing statutory maximum tax rate and debt limits upon local units of government provides further reason for equalization of assessment levels. Such limitation statutes will operate uniformly throughout the State only if assessments are equalized among the several political subdivisions.

Finally, appraisals of the fiscal position of local governments for purposes such as the allocation of State funds or permissive legislation designed to broaden local taxing powers are usually based upon such measures of local effort as the extent to which maximum tax rates and debt limits have been reached. Again, unless the ratios of assessed to full value are equalized, such appraisals are meaningless.

Methods of Equalization

There are two general methods of equalization used in the United States—the uniform-ratio and the variable-ratio methods.[22]

The uniform-ratio method involves adjustment of all assessed values to a uniform level of full value or some fraction thereof. The "across-the-board" adjustments of various county assessment rolls ordered by the California State Board of Equalization in 1935, 1936, and 1937, referred to above,

[19] *Cal. Stats.* 1947, ch. 1575; *Cal. Stats.* 1948, ch. 24; *Cal. Stats.* 1949 (Ex. Sess.), ch. 6.

[20] *Welfare and Institutions Code*, Div. 2, Pt. 2, ch. 1, art. 3, sec. 1520; Div. 3, ch. 1, art. 4, sec. 2165; Div. 5, Pt. 1, ch. 1, art. 3, sec. 3047.

[21] *Cal. Stats.* 1945, ch. 1384.

[22] R. B. Welch, "A New Multiple-Purpose Equalization Program," *Proceedings of the National Tax Association*, 1949, p. 260.

represented application of the uniform-ratio method of equalization.

The variable-ratio method of equalization involves a determination by the state equalization agency of the average ratio of assessed to full value in each assessment district and the use of this ratio in certifying values of state-assessed property to local taxing districts, in the allocation of state funds where assessed valuation enters into the allocation formula, and in the fixing of maximum local tax rates. "No local assessment roll is changed, and no compulsion is exerted with respect to local assessment policies. The state adjusts to local practices, not vice versa."[23]

The California intercounty equalization law of 1949 embodies a combination of these two methods.

California's Intercounty Equalization Law of 1949

During and immediately following the war increased criticism was directed against assessment practices. It was argued that assessed valuations did not adequately reflect changing property values resulting from heavy in-migration of population and rapid industrial expansion and that assessment levels varied widely within the same taxing jurisdiction as well as among the various taxing jurisdictions. At the 1946 conference of the League of California Cities a resolution was adopted calling for an amendment to the State Constitution which would transfer to a State agency having jurisdiction only over tax matters the responsibility for assessing all property subject to ad valorem taxation.[24] This proposal aroused strong opposition among county assessors and various business groups. Although no such amendment was submitted to the electorate, the focusing of public attention on the inequality of property tax assessments undoubtedly led to some improvement in assessment procedures. In addition, the State Board of Equalization through its Division of Assessment Standards has worked closely with county assessors in improving assessment practices. The State Board of Equalization reported in 1949:

> Progress has been made during the past year in the modernization of assessors' offices, in the obtaining of better maps and equipment, and in the training of personnel. This has resulted in definite improvement in assessment procedures and in equalization of assessments, both intracounty and intercounty.[25]

The demand for equalization of assessments persisted, however, and largely as a result of pressure from representatives of the public school system a bill[26] was introduced in the Assembly in January, 1949, to add a new chapter to the Education Code relating to the equalization of county assessments on which the allocations of State funds to school districts were based. The reasons for such legislation were stated in these terms:

> There is an inequality in the apportionment of school funds based on the assessed valuation of property in each school district which arises from the use of such basis without a standard for determining the market value upon which the assessed valu-

[23] R. B. Welch, "Practical Means of Strengthening Local Property Tax Administration," *Revenue Administration*, 1949, p. 51.

[24] *Western City*, October, 1946, p. 31.

[25] *Annual Report of the State Board of Equalization*, 1948-49, p. 6.

[26] Assembly Bill 2027.

ation is based. Assessment practices vary widely from county to county, with the result that some school districts receive unmerited aid depending upon the county within which they are situated. Other school districts are placed at a disadvantage due to the assessment practices of the county within which they are situated and are thus unable to be judged on a basis equal to that of other school districts. There is, therefore, a need for the determination of market value of taxable property by one standard rather than by many in order to insure that all school districts are treated equally in determining the amount of allocations of state funds. There is, furthermore, a need for allowing a raising of the maximum tax rates for school district purposes in order to enable school districts to help themselves when the assessed valuation of property within the school district is unfairly low as shown by a comparison of the total market value of property in that district with other districts.[27]

The original bill provided that on or before July 1, 1950, and each succeeding year thereafter, the State Board of Equalization should report to the Department of Education and the Department of Finance (1) the *county* valuation ("the market value of taxable property as determined by the county assessor") for each county and school district or part of a school district situated within each county; and (2) the *State* valuation ("the market value of taxable property as determined by the Board of Equalization of all property") for each county and for each school district or part of a school district situated within each county. Assessed valuation of property in a county or school district used as a basis for allocating State funds for school purposes was to be determined by a prescribed formula: The county valuation for the unit involved was to be used for allocation purposes when it was identical with the State valuation; in the event that the two valuations were not identical, however, an appropriate upward or downward adjustment was to be made in the county valuation to bring it into conformity with the State valuation. The bill provided, further, that when the county valuation for a school district situated wholly or partially within the county was less than the State valuation, the maximum tax rate for the school district might be increased for the next fiscal year by that percentage by which the county valuation was less than the State valuation.

Thus the equalization procedure originally contemplated applied only to the allocation of State funds for school purposes. It became apparent, however, that serious difficulties would arise unless the legislation was made of more general application so that the assessment ratios found to exist in the several counties would be taken into account in the imposition of ad valorem taxes as well as in the apportionment of State school funds. Since 1935 the State Board of Equalization had certified State-assessed property to local rolls at 50 per cent of full value, which, after equalization orders in 1935, 1936, and 1937, was assumed to be the ratio of assessed to full value prevailing in the fifty-eight counties. A finding by a State agency that varying ratios prevailed, unaccompanied by corrective action, would have raised serious constitutional issues under the provision of the basic law of the State that all property assessed by the State Board of Equalization "shall be subject to taxation to the same extent and in the same manner as other prop-

27 Assembly Bill 2027, sec. 3.

erty."[28] In the face of such a finding, the State Board of Equalization would doubtless have been required either (1) to exercise its constitutional authority to equalize intercounty assessments by "across-the-board" changes in county valuations; or (2) to defend assessments of utility property against the charge that the assumed ratio of 50 per cent did not in fact prevail in the various counties and that such property, therefore, was not being taxed to the same extent and in the same manner as other property. It was not to be expected that either of these courses of action would be welcomed. In order to avoid these and other difficulties arising from the limited scope of the original bill, a series of amendments in the Assembly extended it to include the equalization of utility property assessment levels with local assessment levels and the equalization of assessed values of property of applicants for welfare aid used in determining eligibility. The bill as thus amended was passed unanimously by both houses of the legislature.[29]

The equalization procedures to be followed by the State Board of Equalization are set out in detail in the 1949 law.[30] The board is directed to make a survey annually in each county to determine the ratio between the assessed and market value of property entered on the roll by the county assessor. In this determination the board shall consider sales and other appraisal data compiled by competent appraisers and relating to representative samples of property subject to local assessment in each county which are sufficient in number and dispersion to assure an adequate cross-section of the taxable wealth within the county. When sales and other appraisal data have been obtained for each county, the board shall use such data to determine the average ratio of assessed to market value for the State as a whole.

Whenever the ratio of assessed to market value in any county does not differ from the State-wide average by more than 10 per cent, only the variable-ratio method of intercounty equalization is available to the board. In such cases, the board is directed to equalize the valuation of taxable property in the county by adjusting State-assessed property values to conform to the assessment ratio of locally assessed property. Thus both State-assessed and locally assessed property will be valued on the tax roll at the same proportion of market value.

Whenever the county ratio of assessed to market value differs from the State-wide average by more than 10 per cent, however, the board may employ either the variable-ratio or the uniform-ratio method of equalization. In such cases where the 10 per cent tolerance is exceeded, the board may equalize the valuation of taxable property in the several counties either by adjusting State-assessed property values to conform to the county ratio of assessed to market value or by raising or lowering the values as entered on the rolls by county assessors by that percentage required to make the assessed valuation of such property conform to the State-wide ratio of assessed to market value.

The procedures for intercounty equalization recognize that some deviation from a common assessment level is likely when county valuations are determined

[28] California Constitution, Article XIII, sec. 14.

[29] *Assembly Journal*, 1949, p. 4463; *Senate Journal*, 1949, p. 3245.

[30] *Cal. Stats.* 1949, ch. 1466.

by fifty-eight independent county assessing agencies. When the deviation from the State-wide average does not exceed 10 per cent, provision is made for adjustment of valuations of State-assessed property to conform to county ratios rather than for adjustment of valuations of county-assessed property to conform to the State-wide average. Since State-assessed properties are typically much fewer in number than county-assessed properties, this adjustment involves a minimum of changes in valuations. When the 10 per cent tolerance is exceeded, an alternative is provided ("across-the-board" adjustments of county valuations to conform to the State-wide average) to take care of those instances involving excessive variations in assessment practices.

The 1949 law provides, further, for adjustments in valuations used as a basis for allocation of State funds and in maximum tax rates. Here, again, the 10 per cent tolerance is significant. Whenever the ratio of assessed to market value in any county differs from the State-wide average by more than 10 per cent, any State agency allocating funds to a county (or any district lying wholly or partly within a county) upon the basis of assessed valuation of property shall raise or lower the assessed valuation of property in the county (or district) for purposes of such allocation to eliminate the difference between the county ratio of assessed to market value and the State-wide average.[31] Similar adjustments shall be made in determining eligibility for payment of State funds whenever such eligibility is affected by the assessed value of property owned by the prospective recipient. Within the 10 per cent tolerance, actual rather than adjusted valuation is used for allocation purposes and for determining eligibility for State funds.

In a district situated in more than one county which uses the county rolls as the basis for district taxes, the rate applicable to the assessments on the county rolls for district purposes shall be adjusted to equalize differences between county assessment ratios.[32]

In order to assure that the maximum legal tax rate of any district as applied to the assessed valuation shall be productive of the same tax burden in terms of market value of the property taxed as though the property in the district were assessed at the State-wide average, provision is made for adjustment of such rate. In the fiscal year in which an adjustment is made in the assessed valuation of property in the district for the purpose of allocation of State funds, the maximum legal tax rate shall be subject to adjustment upward or downward by the same percentage that is used in the adjustment of assessed valuation.

The effective date of the act was fixed as September 2, 1950, so that its provisions will be operative for the first time with respect to assessments made as of the first Monday in March, 1951. Recognizing the need to provide funds for the administrative activity which

[31] In a district situated partly in one county and partly in one or more other counties, the adjustment shall be made separately for each part of the district in a different county.

[32] This is done by computing the total market value of property subject to district taxes through use of the several county assessment ratios and by apportioning the amount to be raised by district taxes to that part of the district in each county in the same ratio that the market value of taxable property there bears to the market value of taxable property in the entire district. Thereafter district tax rates shall be fixed in the respective counties calculated to raise the amounts so apportioned when applied to the assessed values there.

the legislature had directed the State Board of Equalization to undertake, the Executive Budget submitted for the 1950-51 fiscal year contemplated the addition of some twenty-five appraisers to the present staff of twelve appraisers in the board's Division of Assessment Standards. The total additional outlay involved, including necessary clerical staff and equipment, was in excess of $217,000, almost doubling the provision otherwise made for the Division of Assessment Standards. The budget bill passed the Assembly with the inclusion of the amount provided in the Executive Budget, but this item was deleted in the Senate and, in the closing days of the session, was eliminated as a result of free conference.

Meanwhile, the new equalization procedure remains in the Revenue and Taxation Code and, unless changed in 1951 by legislation adopted under the urgency provisions of the Constitution, will be the law under which the State Board of Equalization must proceed in that year. So that it may be prepared to discharge its constitutional obligations with respect to intercounty equalization in 1951 in whatever manner the legislature may direct, the board has instructed its staff to be ready to report to it at the appropriate time in that year with respect to the assessment practices in the several counties. The staff to whom this assignment has been given comprises only about one-third of the appraisers for whom provision was made in the Executive Budget for the 1950-51 fiscal year. This will limit the volume of data which will be available to the board for its equalization purposes, but will not leave that agency wholly incapable of performing its constitutional and statutory duties pertaining to property tax equalization. By concentrating effort in those localities where deviations from prevailing assessment practices may be most obvious, and by careful selection of properties for sampling, the staff can do much to overcome the handicaps under which the board is compelled to proceed. Lack of staff may be sufficiently offset by experience on which it may draw to produce results that will enable the board to proceed with a reasonable degree of accuracy in the performance of its intercounty equalization duties.

The 1949 law has aroused considerable controversy among assessing officials, legislators, and taxpayers. Some of the opposition to the intercounty equalization provisions of the law doubtless reflects the unwillingness of certain assessing officials to have the ratio of assessed to market value in their counties made known through the findings of a State agency. There are, however, several other grounds of objection. The determination of the market value of different types of property is one point of attack. The State Board of Equalization is directed to consider sales and other appraisal data in determining the market value of property assessed by county assessors. The extent to which the board will rely on sales data rather than actual appraisals is not yet known, but it is assumed that in the final determination of the market value of locally assessed property sales data will play an important part. In determining the market value of State-assessed property, however, the absence of sales figures resulting from the infrequency with which such property changes ownership necessarily involves reliance on other indicia of market value. Thus, it is argued, market value in these cases is

not comparable with market value of locally assessed property determined by substantial reliance on sales data. It is contended, for example, that sales figures for real estate are greatly inflated while the indicia of market value used in the case of State-assessed property reflect to a lesser degree the influence of inflationary factors. Market value of State-assessed property, therefore, is not comparable with market value of locally assessed property.

Another ground of objection relates to the distribution of the property tax burden between State-assessed utility property owners and locally assessed " common " property owners. Opponents contend that the owners of State-assessed property are already deriving some advantage in comparison with the owners of locally assessed " common " property. This advantage, it is argued, results from the method of valuation of State-assessed property used by the State Board of Equalization. To adjust these valuations to conform to the ratio of assessed to market value in the fifty-eight counties (rather than continuing to certify State-assessed property to the counties at 50 per cent of full value) will accentuate this advantage and bring substantial tax relief to owners of such property. It is argued, on the other side, that because of superior facilities available the valuations of State-assessed property certified to local units have more closely approximated the 50 per cent ratio of assessed to full value than has commonly been the case with respect to locally assessed property. But, sooner or later, an attack will be made upon the uniformity of application of the 50 per cent ratio to all property—State and locally assessed—and hence upon the equity of the distribution of the property tax burden between these two types of property. Provision in the new law for adjustment of valuations of State-assessed property to conform to the ratio of assessed to market value which prevails with respect to property assessed by the county assessors will remedy present inequalities in the distribution of the tax burden and will preclude the possibility of serious trouble later.

Opposition from some quarters rests on the assumption that the intercounty equalization procedure will operate to increase property tax burdens. Assessed valuations will likely be increased, it is argued, either by assessors in counties in which the ratio of assessed to market value is found to be below the State-wide average or by the State Board of Equalization in the exercise of its statutory option to raise or lower county valuations to conform to the State-wide average. The higher ad valorem tax base will not be accompanied by any reduction in tax rates, however, with the result that an additional burden of ad valorem taxes will be borne by property owners.

Equalization by the variable-ratio method commends itself to many as preserving local home rule and avoiding the political repercussions likely to follow use of the uniform-ratio method involving " across-the-board " adjustments of county valuations. Experience in California when such adjustments were made by the State Board of Equalization in 1935, 1936, and 1937 was not entirely happy from the point of view of elective public officials. In a number of counties in which percentage increases were ordered, tax bills showed both the locally determined valuation and the higher valuation, with a notation that

the taxpayer's assessment had been increased by order of the State Board of Equalization. Where no such notification goes to the taxpayer, the county assessor, also an elective official, bears the blame for higher valuations. More than ten years after these equalization orders were made, the writers visited the offices of a majority of county assessors in the State and were on numerous occasions told of this arbitrary interference with local autonomy. Proponents of the 1949 law point out that the variable-ratio method of equalization will obviate recurrence of any such embarrassing episodes. The opposition recognizes the force of this argument and concludes that the alternative uniform-ratio method available to the State Board of Equalization in those instances where the county ratio of assessed to market value differs from the State-wide average by more than 10 per cent is likely to go largely unused, with wide variations in assessment levels going uncorrected.

Provisions with respect to adjustments for allocation of State funds have also aroused criticism. In a county where, for example, assessed valuation is found to be 30 per cent of market value, with a State-wide average of 40 per cent, the level of assessed to market value would be raised to the State-wide average for the purpose of allocation of State funds. Since State aid for schools is based partially upon the amount which the local unit can raise by applying a given property tax rate to the tax base, the local unit loses a part of its State funds; and the deficiency necessary to maintain a certain standard of educational opportunity must be made up by a higher local tax rate. Provision is made for the upward adjustment of the statutory maximum tax rate limit to permit this greater local effort. These provisions, the opponents claim, place the blame for smaller grants of State funds to a local unit squarely on the local assessor and relieve the State Board of Equalization from all responsibility for higher local property taxes. The same criticism is also raised in connection with social welfare and indigent relief grants.

Summary and Conclusions

The California intercounty equalization law of 1949 requires the State Board of Equalization to do nothing basically different from what it has been expected to do since its establishment in 1879—namely, to ascertain the ratio of assessed to market value of property in each of the counties of the State and to take appropriate administrative action to achieve intercounty equalization. During the years from 1910 to 1935 when the system of separation of sources of State and local revenues was in effect the need for intercounty equalization by a State agency was removed, but this function again assumed significance in 1935 with the return of State-assessed property to local rolls to be taxed to the same extent and in the same manner as other property. The State Board of Equalization ordered percentage adjustments of county assessment rolls in 1935, 1936, and 1937 to equalize all counties on a common level of 50 per cent; but between 1938 and 1950 the board has made no further adjustments notwithstanding the constitutional provision that the board shall increase or lower the entire assessment roll of a county whenever it is found necessary to do so to equalize the valuation of taxable property in the several counties

of the State for the purposes of taxation. It can hardly be assumed that assessed valuations in the fifty-eight counties have remained at the common level of 50 per cent during this period. A more plausible explanation is that the opposition created by "across-the-board" percentage adjustments of county assessment rolls in 1935, 1936, and 1937 led the State Board of Equalization to refrain from exercising its constitutional equalization function.

It is perhaps not to be expected that intercounty equalization can be achieved by the device of orders from an elective State agency requiring that assessment rolls prepared by elective county assessors be adjusted "across the board" to conform to a common State-wide level of assessed to market value. Such a uniform-ratio method of equalization is likely to give rise to serious political repercussions and to the charge of violating local home rule. The variable-ratio method, involving adjustments to the ratios of assessed to market value found to prevail in the several jurisdictions, is likely to be much more acceptable to an elective State agency charged with the equalization function, since no local assessment roll is altered and no compulsion is exerted by the State agency with respect to local assessment policies. The 1949 law makes the variable-ratio method available to the State Board of Equalization.

There is reason to believe that the equalization provisions of the 1949 law will result in greater equality in local assessments. The majority of property owners probably have been unaware that for many years county assessments have been assumed to be equalized at a common level of 50 per cent. But even if aware of this, those whose properties were assessed at less than 50 per cent probably regarded themselves as fortunate and did not question whether their particular assessment ratio was above the average. An annual official finding by a State agency of the average ratio of assessed to market value in each county, however, is likely to focus the attention of property owners on the question of whether their property is assessed in accordance with this average ratio. It appears reasonable to assume that property owners, being better able to make comparisons, will be vigilant in calling to the attention of local boards of equalization inequalities in assessment that are not now recognized by either taxpayers or assessors. Greater equality in local assessment should follow as out-of-line assessments are corrected by equalization orders. Moreover, better original assessment to forestall equalization orders may well result.

The 1949 law presents numerous difficult administrative problems—for example, the size of sample to be used in establishing the average ratio and the distribution of the sample by location and type of property "to assure an adequate cross-section of the taxable wealth within the county." But the unhappy experience with intercounty equalization since 1935 suggests the desirability of giving the new law a fair trial.

ASSESSMENT IMPROVEMENT PROGRAM IN KENTUCKY

FRANCIS JOHN SHANNON *

THE PROPERTY TAX is still the chief source of tax revenue for local government and a major source of inequality in taxation. The inequalities persist even though state governments have struggled to equalize the property tax load since the later part of the nineteenth century. Legislatures have created boards of assessment and equalization, tax commissions, and revenue departments and have vested in these state agencies the power to equalize property assessments, to initiate discharge proceedings against incompetent local assessors, and actually to reassess local property in jurisdictions where original assessments have proved unsatisfactory. More recently state supervision has taken on the aspect of technical assistance to local assessors, often in addition to the harsher measures, but, as a practical matter, mainly in lieu of them. In many instances, however, insufficient funds have curtailed state assistance programs.

Concurrent with this trend to concentrate in the hands of state tax administrators the power to control and supervise the administration of the local property tax, legislatures have modified the tax itself in an effort to curb its worst abuses. Revenue sources for state and for local governments have been separated, property classified for taxation at differing rates, far-reaching homestead exemptions provided, and drastic rate limitations imposed on local fiscal authorities.

ALTERNATIVE APPROACHES

Notwithstanding these extensive modifications of the property tax, many state governments still face the urgent problem of devising action programs to promote greater equality among taxpayers and more fiscal responsibility for hard-pressed local governments. Several distinctive approaches are being currently adopted by state governments to improve the administration of the property tax.

The first approach to the problem of securing greater property tax equality places on state tax officials the responsibility to equalize at full cash value the assessed valuations throughout the state. Illinois has selected this course of action but has not relied solely on the state equalization approach to improved local assessment. For more than a decade Illinois has made provision for considerable State assistance to local assessors. In 1949 the Illinois legislature created the office of county assessment supervisor to assist the township assessors with the original assessment. Colorado has taken a second approach, a State-initiated and -directed revaluation program for realty. In this instance the emphasis is placed on uniform original assessment rather

* The author is research assistant, Bureau of Business Research, University of Kentucky. His colleagues, James W. Martin, director, and Earl Turner, research associate, have assisted at certain points in the preparation of this paper.

than on state equalization. The third approach stresses local initiative supplemented by state leadership and assistance; Kentucky has adopted this policy.

The Kentucky plan envisages the reappraisal of four or five counties a year and a measure of improvement in valuation procedure in most of the other counties. State aid in the form of financial and technical assistance is to be made available to all the counties; the type of assistance which each county receives, however, is dependent on local initiative. The Kentucky project contemplates the subordination of State control and supervision in the traditional sense to a program based on mutual cooperation between the State and local governments. This policy stands on the philosophy that local government, chief beneficiary of property tax revenue, should be actively encouraged to assume a responsible role in any effort to make the property tax more equitable and effective. The following paragraphs are intended to state the problem, summarize recent legislative action, and trace the implementation of the Kentucky plan for improved local assessments.

THE KENTUCKY PROBLEM

The Kentucky Constitution clearly stipulates that taxation for any one class of property shall be uniform and that the assessed valuations shall be estimated at the price the property would bring in a fair voluntary sale.[1] These constitutional provisions, unfortunately for tax equity, have not been adhered to in practice. Every recent survey of the property tax has revealed grotesque inequities. Approximately a million acres of land are omitted from the tax rolls. Comparisons of valuations placed on taxable property by local assessors with the actual sale prices of these same properties disclose that gross overvaluations and flagrant undervaluations have been the rule and not the exception.

The Kentucky Department of Revenue had conducted a continuing educational program since 1936 under both Democratic and Republican administrations in an effort to generate public support for improved local assessment. The personal leadership of the Governor and the necessity for gearing the distribution of school equalization aid to local tax effort, however, undoubtedly influenced the timing of legislative action in 1949.

Even before his inauguration Governor Earle Clements, who had had rich experience as a county official, publicly deplored assessment inequalities. As early as June, 1948, he was in principle committed to action on property tax administration. Between that time and the special session of the General Assembly in 1949, he encouraged the Department of Revenue to work vigorously for popular support of legislation. Without fanfare he personally organized for public approval of an action program.

The distribution of school equalization funds to needy school districts had aggravated poor assessment practices. Local governments could, by adoption of the simple expedient of low-level valuation, raise less tax revenue and thereby qualify for more State aid. The equalization law had stipulated, however, that as a condition precedent to the receipt of any school equalization aid, the State Department of Education must obtain from the Kentucky Tax Commission a certificate that the school district's ratio

[1] *Kentucky Constitution*, secs. 171 and 172.

of assessed valuation to fair cash value was equal to the average ratio for the State. In 1948 the Department of Revenue served notice on each school district that this legal requirement, theretofore not enforced and in that year liberally construed, would be vigorously enforced in 1949. Faced with the prospect that approximately seventy school districts would lose all equalization aid as the result of low-level assessments, the Governor in the late spring of 1949 convened the General Assembly in extraordinary session to deal with the twin problems of local assessments and State equalization aid for school districts.

Each legislator received for his consideration two research reports prepared for the Kentucky Legislative Research Commission,[2] which outlined the problem and set forth an action program designed to make tax rates a more equitable and reliable index of local tax effort.

LEGISLATION

The legislation enacted pursuant to the specific recommendation and under the political leadership of the Governor had four objectives: (a) to remove certain legal obstructions to good assessments; (b) to gear school equalization aid to local property tax effort; (c) to improve the status of the county tax commissioner; and (d) to develop a State assistance program for local assessors.

Removal of Legal Obstructions

Probably the simplification of the tax calendar was the most important step taken by the legislature in its effort to remove legal impediments to good assessment practice. The entire assessment and collection process—previously occupying twenty months and falling in three calendar years—was condensed into one calendar year. Under the new plan, property is assessed as of January 1; tax payment is due on September 15, and the tax becomes delinquent December 31. The revision of the tax calendar eliminates confusion among taxpayers as to what year's taxes they are paying. The old calendar had not only caused confusion but also had increased delinquency.

The appeals process was also modified. Before the 1949 legislation the taxpayer who was dissatisfied with the valuation of his property could either appeal from the decision of his county board of supervisors directly to the courts or to the Kentucky Tax Commission and thence to the courts. This procedure, which allowed the taxpayer "to shop around and choose the most sympathetic climate for his appeal,"[3] did not promote uniformity in the review process. The taxpayer's appeal from the county board of supervisors now goes directly to the Kentucky Tax Commission and thence to the courts. To accommodate the taxpayer, all hearings on appeals to the tax commission are held in the county where the property is located. A district conferee, appointed by the commission, conducts the hearing and sends his summary and the transcript to the tax commission for decision.

A third legal obstruction to good assessment practice could be traced to the fact that no provision was made for

[2] *The Inequality of Assessments* (Research Publication No. 1, Legislative Research Commission, Commonwealth of Kentucky, 1949) and *The Assessment Problem and School Equalization Aid* (Informational Bulletin No. 1, 1949).

[3] Kentucky Legislative Research Commission, *The Inequality of Assessments*, p. 14.

the recording of tax-exempt property. Because of this omission, exempt property often escaped taxation after being transferred to non-exempt taxpayers. To check tax evasion and to ascertain the amount and the nature of legally exempt property, the legislators stipulated that all property be recorded by the county assessors.

Certain legal barriers which had prevented municipalities from adopting the annual assessment of the county assessor were also removed. In order to encourage city-county consolidation of assessment functions the special legislation empowered city councils to abolish all municipal offices connected with city assessment and equalization and to rearrange the city tax calendar to conform with the county calendar.

Equalization Aid

The legislature not only took steps to eliminate low property valuations as a device for obtaining greater State assistance but also required that a school district achieve a specified property tax effort to be eligible for full equalization grants. The tax effort formula is based upon the tax rate and the ratio of assessed to sales values. The ratio of assessed valuations to fair cash value must be progressively increased over a period of five years if the district is fully to enjoy the available grants. The amount of school equalization aid is to be progressively decreased for any district that fails to keep pace with the required ratios of assessed to market value. By 1955 the school district's tax effort must include the maximum tax rate allowed under the present legislation and an assessment ratio of 80 per cent; otherwise the district will suffer the loss of all equalization aid.

Assessor's Status Improved

The failure of the public to recognize the technical nature of the assessor's office has been one of the prime factors responsible for the poor assessment record in Kentucky. The county tax commissioner (county assessor) has been poorly paid and his official activity, consequently, a side-line job in many counties. In order to improve the county assessor's status and thereby to attract more qualified personnel on a full-time basis, the legislature provided that a monthly salary of at least $200 be paid. The assessor may receive up to $7,200 annually in the largest counties. Although the minimum salary is low, it represents a substantial improvement in the small counties. Approximately half of the county assessors were receiving less than this minimum.

State Assistance Program

The cornerstone of the Kentucky program for improved local administration was the legislative provision for State assessment aid to local government. The imperative need in most counties for adequate assessment tools and technical assistance was recognized, for without tax maps, property descriptions, manuals, suitable office equipment, and expert assistance even the best qualified assessor is severely handicapped in his efforts to make fair valuations. Accordingly, the legislature authorized a one-year appropriation of $300,000 for the Kentucky Department of Revenue program for local assistance. The next regular session made an identical appropriation for the succeeding fiscal year.

ADMINISTRATIVE IMPLEMENTATION

Shortly after the enactment of the 1949 assessment legislation, the Depart-

ment of Revenue, with the assistance of representatives of Public Administration Service, J. L. Jacobs and Company, the University of Kentucky Bureau of Business Rescarch, and a committee of the county tax commissioners, prepared an administrative program that outlined the major objectives, administrative policies, and tentative work schedules to implement the legislative policies. The objectives were three-fold: (a) to provide continuous State assistance and guidance to local assessors; (b) to cooperate with and assist particular local units in making county-wide reappraisals; and (c) to effect necessary changes in assessment organization, methods, and procedures to comply with recent changes in assessment law.

The Local Assessment Section, assisted by the planning committee, supported its broad administrative program with operational recommendations both general and concrete. It itemized the functions of the newly created section and set forth the duties, supervision, and qualifications for the section personnel. It laid out a schedule of operations detailing the tasks to be performed by particular staff members in specified calendar periods.

The Department of Revenue adopted and is taking steps to implement the following administrative policies.

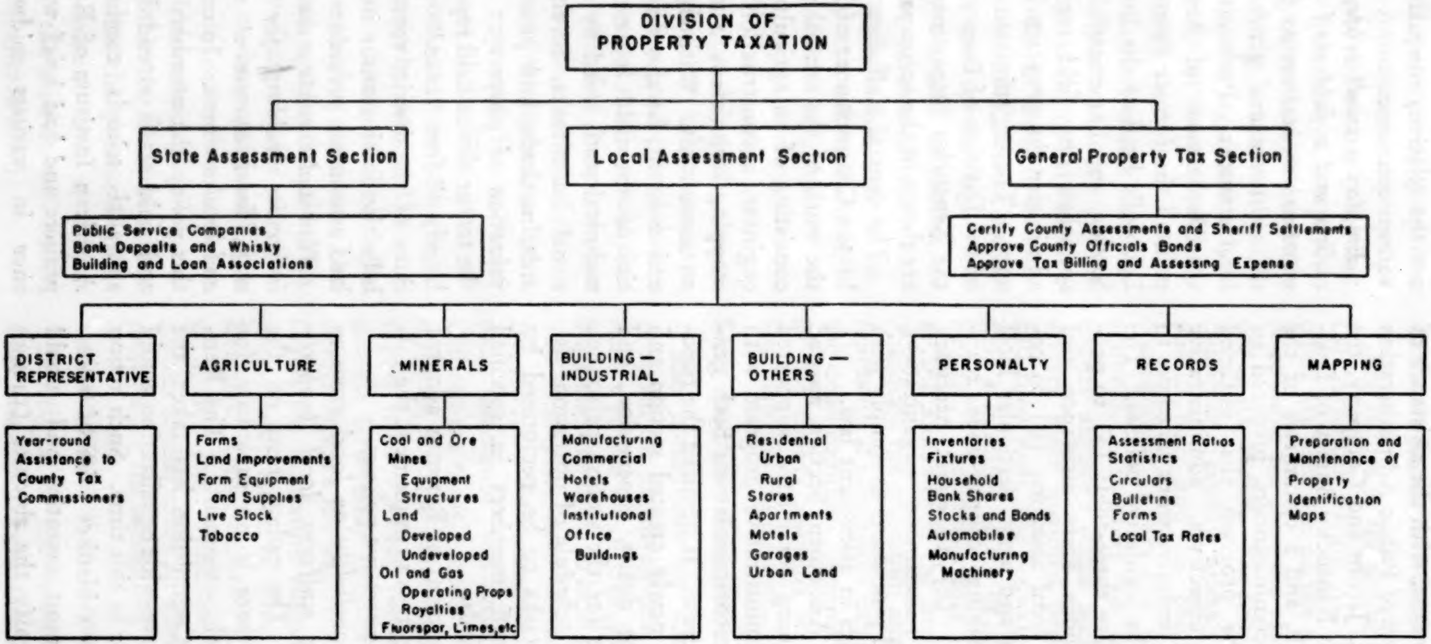
Place responsibility on local assessors for securing uniform local property assessments. The policy rests on the belief that there is no substitute for good original assessment. The Kentucky Tax Commission has taken the stand that State-wide equalization would not be proper at this time. Such action would entail a blanket raise of assessments for most counties and would thereby magnify the absolute (though not the relative) inequalities within the various counties.

Employ a small central staff of specialists and a field staff of local assessment representatives to provide technical assistance and general guidance to local assessors. Pursuant to this policy the Department of Revenue has appointed the former Finance Director of Louisville head of the Local Assessment Section and has engaged the necessary specialists and field representatives to administer the program for local assistance. The organization and functions of the Division of Property Taxation of the Kentucky Department of Revenue are shown in the accompanying chart.

The central staff director, supervised by the Commissioner of Revenue, plans the work of the central standards staff, consisting of an agriculturist, a mining engineer, a construction engineer, two mapping technicians, a statistician, and an accountant. With the aid of a general assistant, he also directs the activities of the field representatives. The technical staff, aided by outside professional consultants, develops the standards, methods, and procedures for the valuation of property. The duties of the ten or eleven field representatives are largely "free lance." The primary duty of the district representative is to help the local assessor install standardized assessment procedure.

Plan and execute a sound program of in-service training for the technical staff, local assessment representatives, and local assessors. In compliance with this policy the members of the central and field staffs attended the property appraisal schools conducted by the American Institute of Real Estate Appraisers and had brief working experience in various midwestern taxing

DIVISION OF PROPERTY TAXATION KENTUCKY DEPARTMENT OF REVENUE



jurisdictions recommended for their standardized systems by the National Association of Assessing Officers. In December, 1949, the staff members devoted two weeks to a training program which included every phase of the assessment process, the county tax commissioners' duties, and a review of the new Kentucky assessment manual. The final phase of the in-service training program for members of the Local Assessment Section will consist of working experience as direct participants in county-wide reappraisal projects conducted jointly by the Department of Revenue and local tax jurisdictions.

The Local Assessment Section, in conjunction with the University of Kentucky Bureau of Business Research, initiated the in-service training program for county assessors with a three-day orientation conference for newly elected tax commissioners in January, 1950. The purpose of this conference was to sketch in a preliminary manner the assessment procedure, the legal requirements, and the recommended assessment program for 1950. Two tax institutes, each of one week's duration, were held in seven parts of the State for all county assessors. These district schools were conducted by the field representatives, assisted by the assessment standards staff and outside professional consultants. These training institutes included instruction in valuation theory, use of manual materials, proper office procedure, and actual valuation practice in the field. Follow-up meetings with five assessors at a time are currently being arranged by the local assessment representatives to ascertain the effectiveness of the institutes. In the autumn of 1950 there will be a State-wide conference of all the county assessors.

Develop property assessment standards and prescribe rules, methods, and procedures and otherwise assist in securing their application in all county assessment districts. This policy has been implemented by the distribution of a series of assessor's manuals to all county tax commissioners in January, 1950. These manuals,[4] which outline the basic valuation principles, methods, and procedures for assessing the different kinds of real and personal property, were prepared by the Department of Revenue in collaboration with a committee of county assessors appointed by their State association. Technical assistance was provided by J. L. Jacobs and Company and Public Administration Service. These consultants prepared original drafts of the Kentucky manuals.

Formulate and secure uniform use of forms and records, manual materials, and other assessment tools. This policy, designed to install the standardized assessment system in Kentucky, has been favorably received by most of the county assessors. Approximately 100 of the 120 county assessors have indicated their intention to cooperate with the Local Assessment Section and are in the process of installing the property record card system prepared by the Department of Revenue.

The Department of Revenue and the Agricultural and Industrial Development Board are developing a long-range mapping program for the entire State. In the meantime, the department seeks to make available to all county assessors desiring this service aerial photographs,

[4] In its present stage the State's assessor's manual has three units: *Kentucky Property Assessment Administration Manual*; *Kentucky Real Property Assessment Manual;* and *Kentucky Personal Property Assessment Manual.* A fourth manual, more elementary in character, is still to be published.

upon which property identification details are superimposed. It is also distributing necessary office equipment on a loan basis to certain assessors handicapped by insufficient operating budgets.

Initiate a limited number of county-wide property reappraisal programs to be conducted in cooperation with the counties under the general direction of the Department of Revenue and the immediate supervision of professional appraisal firms. The policy of limited reappraisal has been translated into action. The Department of Revenue has acted favorably on the requests of the county boards for the initiation of several reappraisal projects. The department, satisfied that strong local need and support for reappraisal existed in each instance, has awarded contracts to three appraisal firms on four county undertakings. The department is using the fifth county as a pilot project, and has accordingly worked out a special arrangement with one of the firms for handling the appraisal and also the in-service training for departmental office and field staff—and perhaps for certain county assessors.

The counties selected for reappraisal represent a fairly accurate cross-section of the valuation problems confronting a State-wide program for improved local assessment. The reappraisal projects range from Louisville's Jefferson County, which assesses approximately one-third of the State's total taxable property, to Garrard County, a small rural county of 12,000 inhabitants.

The Department of Revenue has stipulated that, as a condition precedent to the letting of a reappraisal contract, the standards, methods, and specifications for appraising property shall be as prescribed in the Kentucky Property Assessment Manual. The basic land values are to be determined by local advisory committees.

Engage in an active public relations program designed to enlist public support for the department's efforts to secure greater uniformity in local assessment. This policy has been vigorously advanced by the representatives of the department through periodic news releases, speeches, and informal talks with civic groups throughout the State. The public relations activity emphasizes that the fundamental purpose behind the strenuous program to improve local property tax assessments is not to raise taxes but to equalize them. A recent editorial of *The Louisville Times*, commenting on the current reappraisal project for Jefferson County, reflects the spirit of this public relations program:

> We are glad to see the city and county officials proposing to do something about the problem. The reassessment program they are planning will be a welcome step in the direction of tax fairness and compliance with a constitutional mandate that taxes be uniform within any given taxing authority's territory. No one should be expected to pay more than his fair share of taxation, and no one has a right to expect to pay less than his fair share.[5]

EVALUATION

The Kentucky plan based on local initiative and State assistance of necessity places major emphasis on a long-range approach to the problem of securing greater tax equality. The long-standing abuses caused by deviations from the standards of full value and uniformity

[5] *The Louisville Times*, April 1, 1950.

are not subject to ready correction. It will take time, adequate outlays for appraisal assistance, and teamwork between State and local tax officials to achieve the goal of fair assessment.

Although the program is still in the experimental stage, certain substantial gains have been registered. The legislature has condensed the tax calendar, standardized the appeal process, facilitated city-county consolidations of assessment functions, and improved the status of the county assessor. The administrative follow-through has kept pace with the legislation. The Local Assessment Section has provided the county tax commissioners with the basic appraisal tools—assessing manuals, uniform property record cards, maps, office equipment—and in-service training necessary for the proper utilization of these appraisal aids. Moreover, five county-wide reappraisal projects have been initiated at the request of local authorities.

To students of state-local relationships the approach adopted by Kentucky may prove of interest. The failure of local government to achieve fair assessment of property has been recognized, but the answer has not been state assessment. Several causes for poor local assessment have been removed and the State stands ready to help localities with their appraisal problems. The success or failure of this program will depend in no small measure, however, on effective public relations. A necessary condition for success of a program of local initiative and state assistance is recognition by taxpayers that the state's interest in better assessment practice rests on the need for equality and that the measures undertaken to achieve this goal will not be used as a subterfuge to increase local property tax loads.

STATE FISCAL ACTIVITY, 1945–49

R. W. LINDHOLM *

OVER the postwar period state governments have not increased tax revenues sufficiently to cover the substantial rise in their expenditures. This has necessitated an expansion of state debt and resulted in additional pressure for grants-in-aid from the Federal Government. State fiscal activities, in general, have tended to expand the total level of demand for goods and services in the postwar period. Borrowing, tax collection, and expenditure activities of state governments account for a little more than one-half of the combined state and local government total.

On the expenditures side, outlays for highways, public welfare, and education have expanded most rapidly. Expenditures for highway and school construction have been at especially high levels. These have competed with private uses for materials in generally short supply. They are, moreover, very stimulating to private investment, particularly in the case of highways. The result has been that postwar state expenditures have had a large expansionary effect on the economy.

Most emphasis for increasing state revenues has been placed on tobacco and general sales taxes. Of the major state taxes, the property and corporation income taxes have expanded least in the postwar period. In general, state tax revenues have been increased through taxes which are especially deflationary in character, but their total impact has not entirely offset the expansionary effects of state expenditures and deficit financing.

Aggregate State Fiscal Activity

The principal sources of state revenue are general tax receipts, aid from the Federal Government, and general borrowings. The annual percentage of state total general expenditures provided by each of these sources for the five-year period 1945-49 is shown in Table 1. State taxes covered 93 per cent of expenditures in both 1945 and 1946. During the three following years (1947, 1948, and 1949), this percentage declined continuously and rather rapidly to 71 per cent in 1949. While the total state general expenditures increased by $5,785 million from 1945 to 1949, total state general taxes expanded by only $2,792 million. The large difference in the expansion of general expenditures and general taxes during this five-year period did not result, however, in an equally large expansion of state general borrowing. As shown by the table, the annual rate of state general borrowing expanded by $574 million. Large additional state receipts to finance the enlarged expenditure came from miscellaneous revenues and Federal Govern-

* The author is at present a member of the staff of the Board of Governors of the Federal Reserve System in Washington. The views expressed, however, are his own personal views and do not necessarily reflect the official views of the Board of Governors.

ment aid. The remainder of the funds spent came from state cash surpluses accumulated in the war period.

portion of these borrowings has been from commercial banks, and has resulted in an expansion of deposits. In addition, states utilized their war-accumulated surplus to finance postwar expenditures in excess of revenues. The financing of expenditures out of such cash balances is perhaps as inflationary in effect as financing with new borrowings from banks.

TABLE 1

SUMMARY OF STATE GENERAL REVENUE AND EXPENDITURES, 1945–49

(Dollar amounts in millions)

Item	1949	1948	1947	1946	1945	Increase or Decrease (–) 1949 over 1945
Expenditures	$11,782	$10,400	$8,099	$6,404	$5,997	$5,785
Income	10,991	10,026	8,480	7,197	6,730	4,261
As percentage of expenditures	93.3	96.4	104.7	112.4	112.2	–18.9 [a]
Taxes	$ 8,353	$ 7,791	$6,690	$5,968	$5,561	$2,792
As percentage of expenditures	70.9	74.9	82.6	93.2	92.7	–21.8 [a]
Aid from Federal Government	$ 1,705	$ 1,399	$1,125	$ 743	$ 738	$ 967
As percentage of expenditures	14.5	13.5	13.9	11.6	12.3	2.2
Miscellaneous revenue	$ 933	$ 836	$ 665	$ 486	$ 431	$ 502
As percentage of expenditures	7.9	8.0	8.2	7.6	7.2	.7
Borrowing	$ 588	$ 799	$ 742	$ 73	$ 14	$ 574
As percentage of expenditures	5.0	7.7	9.2	1.1	.2	4.8

[a] Decrease.

Source: Calculated from U. S. Bureau of the Census, *Compendium of State Government Finances in 1949* (Washington, 1950), Table 1, p. 6.

State expenditures during the postwar period nearly doubled. In the early part of the period, growth of state expenditures contributed to inflation and added to the problem of postwar economic stability. On the other hand, the high and rising level of state outlays was a sustaining and stabilizing factor in the downturn of 1949.

The expansion of state debt from 1947 through 1948 and again in 1950 [1] has been an inflationary force at the very time of greatest postwar and rearmament pressures.[2] A substantial

Previous booms have tended to be periods of expansion in state expenditures and indebtedness. States have loaded themselves with debt service burdens at times when prices were high and when curtailment of many expenditures would have been in the general public interest. The performance of the postwar and rearmament periods has been a duplication of these experiences.

Major Developments in State Taxes

Expansion of state taxes has been general but not uniform. The greatest

[1] State and local government debt expansion in 1950 is estimated by the Federal Reserve Board to be $2.7 billion.

[2] In this respect, the Federal Government's record is better than that of the states. The amount of Federal debt held by the public was as follows (in billions): 1946, $240.8; 1947, $228.6; 1948, $216.6; 1949, $214.5.

increase occurred in tobacco tax collections, which rose 168 per cent between 1945 and 1949. The next largest expansion was in general sales or gross receipts taxes where collections increased 107 per cent. All tax collections increased 50 per cent from 1945 to 1949. Differences in the rate of growth of collections from selected taxes are shown in Table 2.

TABLE 2

CHANGE IN COLLECTIONS OF SELECTED STATE TAXES, 1945–49

(Dollar amounts in millions)

Type of Tax	Collections 1949[a]	Collections 1945	Increase, 1945–49 Amount	Increase, 1945–49 Percentage	Collections as Percentage of All State Taxes 1949	Collections as Percentage of All State Taxes 1945
General sales or gross receipts ..	$1,609	$ 776	$ 833	107.3	19.3	14.0
Motor vehicle fuels	1,361	696	665	95.5	16.3	12.5
Alcoholic beverages	426	312	114	36.5	5.1	5.6
Tobacco products	388	145	243	167.6	4.6	2.6
Individual income	593	316	277	87.7	7.1	5.7
Corporation income	641	446	195	43.7	7.7	8.0
Property	280	247	33	13.4	3.4	4.4
Total	$5,298	$2,938	$2,360	80.3	63.4	52.8

[a] Preliminary data for 1950 show a continuation of the 1945–49 trend.

Source: *Compendium of State Government Finances in 1949* (*op. cit.*), Table 1, p. 6.

Collections from tobacco products taxes, general sales or gross receipts taxes, motor vehicle fuels taxes, and individual income taxes increased considerably more than the average increase of state tax revenues. The increase in state collections from the property taxes, alcoholic beverage taxes, and individual income taxes was less than the average.

Changes from 1945 to 1949 in the relative importance of these various types of taxes are also shown in Table 2. The taxes levied on tobacco products increased from 2.6 per cent to 4.6 per cent of state tax collections. The great increase in state reliance on sales and excise taxes in the postwar period can be seen by combining the percentages of total taxes that are provided by the major excise taxes and the general sales tax. In 1945 these taxes accounted for 34.7 per cent of total state tax collections, and in 1949 they accounted for over one-half.[3]

Increases in state taxes have occurred primarily in ways which have exerted substantial deflationary pressures, a factor that has tended to offset in part the inflationary impact of current deficits financed through borrowing and of spending out of accumulated cash balances. The expansion of state tobacco products taxes, which is largely an increase of cigarette taxes, is the outstand-

[3] The extent of this expansion was caused in part by the increased availability of goods between 1945 and 1949. However, the percentage of state general taxes provided by general sales and excise taxes in 1942, before goods became generally scarce, was about the same as in 1945.

ing example of state use of a revenue source with a deflationary impact. State revenues from this source increased $243 million between 1945 and 1949, and cigarette taxes have nearly doubled in importance as a source of tax revenue. The cigarette tax is levied upon a product used in large quantities by persons in the medium- and low-income groups, who have a high propensity to consume. At the same time, the quantity of cigarettes bought varies little with changes in their price, a factor which has prevented a decrease in consumption when state taxes were expanded. The cigarette tax, perhaps more effectively than any other excise tax, transfers purchasing power from individuals who are likely to spend to government.

The general sales tax is another instrument by which state revenues have been expanded; this tax rose from 1945 to 1949 by over 100 per cent (see Table 2). The sales tax, which is the single most important source of state revenue, expanded from 14.0 per cent of state general tax revenue in 1945 to 19.3 per cent in 1949. As with the tobacco tax, growth in state revenues collected through the general sales tax was a deflationary factor of importance.

A 95.5 per cent increase in motor vehicle fuel tax collections also worked toward decreasing directly the purchasing funds of private consumers. This tax, however, affects business costs more directly than the cigarette and general sales taxes.

It is commonly said that a tax which becomes a direct business expense is different in its effect from a tax levied as an excise and paid by the consumer along with the purchase price of the article. It is usually emphasized that a tax which increases direct business expense increases prices by more than the tax collections. This is based upon a series of assumptions such as a relatively inelastic demand and percentage markups. (The tax on gasoline used by trucking companies to transport goods would fall into the category of a tax which becomes a direct business expense.) A tax levied on consumer purchases is assumed to decrease private purchasing power bidding for goods and services and thereby to lower prices. This in turn is based upon assumptions such as fixed consumer incomes and unavailability of credit and savings. It is questionable, with well-developed unions, full employment conditions, and a large volume of liquid assets, that there is as sharp a difference between these two types of taxes as has frequently been assumed.

In the general pattern of state tax collections, the individual income tax did little more than maintain its position from 1945 to 1949, increasing from 5.7 per cent to 7.1 per cent of the total. Individual income taxes, because of exemptions and progressive rates, are generally considered less deflationary than general sales taxes and excises on goods widely consumed. Relatively small increases occurred in state property and corporate income taxes, which are likewise not considered as deflationary in impact as the sales and excise taxes discussed above.

Major State Expenditures

Of the growth in state expenditures between 1945 and 1949, the greatest expansion, both percentage-wise and quantitatively, was in highway expenditures, as is shown in Table 3. A part

of this increase was caused by war-imposed restrictions which reduced highway outlays from $1,125 million in 1942 to $816 million in 1945. Nevertheless, the growth remains very great even when compared with the higher, rather normal outlays of 1942.

Continued expansion of highway expenditures as well as state expenditures on other types of construction added to inflationary pressures during the postwar boom of residential and industrial construction. The relationship between total (all levels of government) highway construction expenditures and total construction, residential construction, and industrial and commercial construction for key years is shown in Table 4. It would, of course, have been desirable from the cyclical standpoint if highway and other public works expenditures had been delayed until the private construction boom had subsided. As a practical matter this was impossible. Existing highways were overcrowded, partly because of the inefficient use of funds during the prewar period; and school-building facilities, particulary on the elementary and collegiate levels, were grossly inadequate. The public construction experience of

TABLE 3
Change in Selected State Expenditures, 1945–49
(Dollar amounts in millions)

Item	Expenditures				Expenditures as Percentage of Total Expenditures	
	1949	1945	Increase, 1945–49			
			Amount	Percentage	1949	1945
Highways	$2,440	$ 816	$1,624	199.0	20.7	13.6
Health, hospitals, and institutions for handicapped	689	381	308	80.8	5.8	6.4
Public welfare	1,948	954	994	104.2	16.5	15.9
Correction	142	82	60	73.2	1.2	1.4
Schools	2,703	1,210	1,493	123.4	22.9	20.2
General control	292	187	105	56.1	2.5	3.1
Provision for debt retirement	226	223	3	1.3	1.9	3.7
Total	$8,440	$3,853	$4,587	119.1	71.6	64.2

Source: *Compendium of State Government Finances in 1949* (*op. cit.*), p. 6.

State school and public welfare expenditures showed the next greatest expansion and in both cases became an increased portion of total state general expenditures. School expenditures increased 123 per cent from 1945 to 1949, and public welfare expenditures expanded 104 per cent. Although state expenditures for health, hospitals, and institutions for the handicapped expanded by over 80 per cent, they failed to keep up with the general growth of state expenditures and dropped from 6.4 per cent to 5.8 per cent of the total. State expenditures for correction showed a similar trend. General control expenditures showed the smallest increase.

TABLE 4

New Construction Expenditure: Annual Totals and Totals for Selected Types, 1929, 1938, 1942, 1945, and 1949
(In millions of dollars)

Year	Total	Residential Building	Industrial and Commercial	Highways (All Levels of Government)
1929	9,913	2,797	279	1,248
1938	5,018	1,511	530	837
1942	13,353	1,315	510	675
1945	4,808	684	852	386
1949	19,329	7,025	1,975	1,670

Source: *Survey of Current Business*, July, 1947; July, 1949, Table 31; and February, 1950, p. S-6.

the postwar period and the reasons for it serve to point up some great practical difficulties in having the volume of this construction vary inversely with private construction activity.

Another economic factor relating to state highway construction expenditure is its stimulating effect on other industries. Better and new highways stimulate automobile sales and all types of automobile servicing activities. Commercial and residential construction is stimulated by a highway development that opens up a new suburban area or that encourages construction of additional restaurants, motels, and the like.

Despite an expansion of state gross debt outstanding (including a small proportion for enterprise purposes) from $2,526 million in 1945 to a new high of $4,090 million at the end of 1949, the provision for debt retirement has increased by only $3 million since 1945; debt retirement expenditures in 1942 were over $75 million greater than those of 1949. In 1945 provision for debt retirement accounted for 3.7 per cent of total state expenditures and in 1949, only 1.9 per cent. The $226 million provided for debt retirement in 1949 was less than half the total of general state government borrowing in that year.

ABILITY TO SHIFT THE CORPORATE INCOME TAX: SEVEN INDUSTRIAL GROUPS

MORRIS BECK *

1. *Factors Influencing Ability to Shift*

THE PROPOSITION has been advanced that the relative ability of any one firm or industry to shift the Federal corporation income tax will depend, in part, on capital structure and the speed with which assets are turned over in sales.[1] The reasoning is briefly as follows: A uniform income tax, if it is to be completely shifted, will require differing rates of increase in selling price from one industry to another and from one firm to another. Those firms or industries that need small percentage increases in price will be more able to shift at least part of the tax than will other firms or industries. The variation among firms and industries in this respect depends on differences in capital structure and the speed of asset turnover.

In line with this suggestion, the present writer has examined, for seven broad industrial groups, balance sheet and income statement data which seem to bear upon the proposition. A complete study of tax shifting has not been attempted. The term "ability to shift" is here employed in a partial and relative context—partial, because the study is confined to the influence of two among many factors on ability to shift; relative, because the analysis is focused on inter-industry variations in that ability. The absolute amount of shifting that is possible may be small or even negligible, at least over the short run; nevertheless, what ability to shift there is will vary from industry to industry. It will vary for many reasons, among them differences in capital structure and in the rate of asset turnover.

2. *Method and Materials*

The materials employed herein are aggregate data of corporations submitting tax returns with balance sheets to the Bureau of Internal Revenue for 1939 income. That year was selected because tax returns are not complicated by either the undistributed profits tax of 1936-38 or the war-time excess profits tax. The seven industrial groups embrace every type of corporate enterprise except finance, which category was omitted because of the difficulty of distinguishing between operating and nonoperating assets. The data are shown in Table 1, and necessary adjustments are explained in footnotes to the table.

The method employed for ascertaining partial relative ability to shift, arising from differences in capital structure and asset turnover rates, is that of determining what percentage increase in sales receipts would be necessary to recoup a given rise in tax liability, owing to an increase in the tax rate. In 1939 the standard rate of the Federal corporate income tax was 19 per cent;

* The author is lecturer in economics at Columbia University, New York.

[1] C. S. Shoup, "Incidence of the Corporation Income Tax: Capital Structure and Turnover Rates," *National Tax Journal*, I (March, 1948), 12-17.

TABLE 1

BALANCE SHEET AND INCOME STATEMENT DATA OF CORPORATIONS REPORTING NET INCOME[a] IN 1939: AGGREGATES OF SELECTED INDUSTRIAL GROUPS

(Money figures in thousands of dollars)

Item	Mining and Quarrying	Manufacturing	Public Utilities	Trade	Service	Construction	Agriculture
1. Number of returns[b]	3,357	41,946	9,761	60,745	12,862	5,291	2,491
2. Operating assets[c] ..	3,054,621	39,081,448	32,001,975	12,982,746	1,875,248	737,414	602,184
3. Borrowed capital[d] ..	374,983	5,091,221	13,474,036	1,969,309	560,478	77,480	93,385
4. Sales, etc.[e]	1,649,694	48,852,414	8,708,299	33,863,988	2,170,201	1,418,746	398,357
5. Operating expenses[f]	1,431,269	45,252,247	6,955,738	32,907,155	1,998,980	1,355,289	365,097
6. Operating income[g] .	218,425	3,600,167	1,752,561	956,833	171,221	63,457	33,260
7. Interest payments[h] .	20,788	259,494	591,046	95,402	26,674	4,159	4,910
8. Taxable operating income[i]	197,637	3,340,673	1,161,515	861,431	144,547	59,298	28,350
9. Tax liability[j] (at 19%)	37,551	634,728	220,688	163,672	27,464	11,267	5,387
10. Operating income after tax[k]	160,086	2,705,945	940,827	697,759	117,083	48,031	22,963

[a] Net income is the amount reported for (declared value) excess-profits tax computation (item 28, page 1, tax return form 1120), and is the difference between "total income" and "total deductions" (items 14 and 27, respectively, p. 1, form 1120).

[b] Includes only the returns of corporations reporting net income and submitting complete balance sheets. The relative importance, for all industrial groups, of "net income" corporations may be ascertained by comparison with "no net income" corporations:

(Money figures in thousands of dollars)

	Net Income	*No Net Income*
Number of returns	187,920	224,839
Total assets	206,670,943	100,130,363
Total compiled receipts	104,167,699	26,197,241
Net income or deficit	8,708,642	1,909,848

[c] Total assets less "investments, government obligations" and "other investments" (items 5 and 6, respectively, of the source table).

[d] Sum of items 11 and 12, source table (bonds, notes, and mortgages payable).

[e] Total compiled receipts less items 22 (interest, other than government obligations), 24 (net capital gain, 25 (net gain, sales of property other than capital assets), 26 and 27 (dividends received), and 29 and 30 (interest on government obligations).

[f] Total compiled deductions less items 38 (interest paid), 43 (net capital loss), and 44 (net loss, property other than capital assets).

[g] Sales, etc., minus operating expenses.

[h] Item 38 of source table.

[i] Operating income minus interest payments.

[j] Under the "general rule" tax due on 1939 income could be computed by applying a flat rate of 19 per cent to the tax base.

[k] Taxable operating income minus tax liability.

Source: U. S. Treasury Department, *Statistics of Income for 1939,* Part 2, Table 4, pp. 112-39.

for the present illustrative computations, a rise of the tax rate from 19 to 38 per cent is assumed. To simplify the analysis, it is further assumed that physical volume of sales remains unchanged.[2] The percentage by which

[2] This assumption implies that demand for the industry's product is completely inelastic at the existing output—an unrealistic assumption, but one which facilitates analysis of variations in ability to shift.

each industrial group would have to increase its sales receipts, in order to shift the additional tax, is obtained from the formula

$$(1) \qquad y = u \cdot \frac{t_n - t_o}{1 - t_n},$$

where y is the necessary sales increase,
u is the ratio of taxable operating income to sales,
t_n is the new tax rate (38 per cent), and
t_o is the old tax rate (19 per cent).

3. *Index of Partial Relative Ability to Shift*

The necessary increase in sales, computed as above for each industrial group, is shown in line 1 of Table 2. It varies from ~~0.60~~ 0.59 per cent for trade to ~~3.13~~ 4.09 per cent for the public utilities. Line 2 of the same table shows the ratio of taxable operating income to sales.[8] Again, trade has the smallest ratio and public utilities the largest; the other groups occupy the same relative positions as they did in the case of the necessary sales increase. The correspondence of these positions is not fortuitous, for the values in line 1 were obtained by application of a constant multiplier to the values in line 2. The multiplier
.3064516 is 0.2345679, calculated from the expression $\frac{t_n - t_o}{1 - t_n}$. For a given industrial group the necessary sales increase is
.3064516 0.2345679 times the ratio of taxable operating income to sales.

Since the relationship between the two variables is direct, either may be used as a tentative index of the partial relative ability of a given industrial group to shift the corporate income tax. Thus, trade, having the smallest ratio of taxable income to sales, requires the smallest ratio of increase of sales to recoup a rise in the tax rate and is to this extent in the best position to shift the tax. For the opposite reason, the public utilities are to this extent in the least favorable position for shifting.

There is, however, a semantic objection to designating either y or u as the index of partial relative ability to shift. As we have seen, trade has the smallest ratio of taxable income to sales and the smallest necessary sales increase. It also possesses the greatest degree of partial relative ability to shift. The notion of ability to shift is thus inversely related to the two variables. To avoid the possibility of confusion, the inverse relationship should be replaced with a direct relationship. This can be accomplished by inverting the ratio of taxable operating income to sales (that is, by finding its reciprocal). Line 3 of Table 2 is this reciprocal. With $\frac{1}{u}$—the ratio of sales to taxable operating income—serving as the index of partial relative ability to shift, it is clear that such ability improves as the value of this ratio increases.

4. *Determinants of u*

Formula (1) told us that the necessary increase in sales for each industrial group is the product of an income/sales ratio and a multiple expressing the change in the tax rate. Since this multiple is constant for all industrial groups, it affects the level but not the shape of the function relating y and u. Variations in y are the result solely of variations in u.

But u is itself a function of two ratios:

[8] The elements of this ratio are set forth in footnotes e-i of Table 1.

TABLE 2

RATIOS INDICATIVE OF PARTIAL RELATIVE ABILITY TO SHIFT THE FEDERAL CORPORATION INCOME TAX: SEVEN INDUSTRIAL GROUPS

(All ratios expressed as per cent)

Ratio		Mining and Quarrying	Manufacturing	Public Utilities	Trade	Service	Construction	Agriculture
1. Necessary sales increase, to recoup rise in tax rate from 19% to 38%	(y)	3.67 ~~2.81~~	2.10 ~~1.60~~	4.09 ~~3.13~~	0.79 0.60	2.04 1.56	1.28 0.98	2.18 1.67
2. Taxable operating income to sales ..	(u)	11.98	6.84	13.34	2.54	6.66	4.18	7.12
3. Sales to taxable operating income	$\left(\frac{1}{u}\right)$	834.73	1,461.99	749.64	3,937.01	1,501.50	2,392.34	1,404.49
4. Interest payments to operating income	(f)	9.52	7.21	33.72	9.97	15.58	6.55	14.76
5. Taxable operating income to operating income	$(1-f)$	90.48	92.79	66.28	90.03	84.42	93.45	85.24
6. Operating income to sales	(r)	13.24	7.37	20.13	2.83	7.89	4.47	8.35
7. Operating income to operating assets ..	(v)	7.15	9.21	5.48	7.37	9.13	8.61	5.52
8. Sales to operating assets	(n)	54.01	125.00	27.21	260.84	115.73	192.39	66.15
9. Operating assets to sales	$\left(\frac{1}{n}\right)$	185.15	80.00	367.51	38.34	86.41	51.98	151.17

r—the ratio of operating income to sales (line 6 of Table 2), and

$(1-f)$—the ratio of taxable operating income to operating income (line 5 of Table 2).

For a given industrial group,

$$u = r \cdot (1-f). \tag{2}$$

If either of these two ratios were constant for all industrial groups, variations in u would be solely attributable to variations in the other ratio. Since neither ratio is constant, the variation in u is attributable partly to variations in r and partly to variations in $(1-f)$. Let us examine each of these in turn.

The ratio of operating income to sales (r) measures the margin of profit on a dollar of sales before allowance is made for the cost of using capital. Operating income is defined (see footnote g to Table 1) as sales minus operating expenses, these expenses including cost of goods sold and all other expenses incurred in the ordinary course of operations except payments, either actual or implicit, for the use of funds. Inspection of lines 2 and 6 of Table 2 reveals that variations in r are closely associated with variations in u, but analysis of this relationship will be deferred until we have explored the significance of $(1-f)$, the second determinant of u.

5. *Capital Structure*

As is well known, the income tax law discriminates between borrowed capital and owners' capital. The statute permits full deduction of interest paid to

creditors, but allows no comparable deduction for the implicit cost of equity capital. The preferential treatment accorded debt capital is reflected in the income statement, and consequently in partial relative ability to shift a given tax increment.

In line 8 of Table 1, taxable operating income is defined as operating income less interest payments. Type of capitalization (relative proportions of debt and equity capital) does not affect computation of operating income, but it does affect computation of taxable income. The larger the ratio of borrowed capital to total capital, the larger will be the ratio of interest payments to operating income and the smaller will be the taxable portion of a dollar of operating income. Two corporations with the same ratio of operating income to sales, but with different amounts of interest payable, will have different amounts of taxable operating income and hence different coefficients of partial relative ability to shift.

The relative importance of debt in capital structure and its influence on relative ability to shift may be measured by either:

f—the ratio of interest payments to operating income (line 4 of Table 2), or

$(1-f)$—the ratio of taxable operating income to operating income (line 5 of Table 2).

For a given industrial group the two ratios are complementary. The second ratio—$(1-f)$—is one of the two determinants of u in formula (2). Comparison of lines 5 and 2[4] of Table 2 indicates an absence of close association between these two variables, but the relationship will be re-examined later when the ratios are replaced with ranks.

We return now to r, the first of the determinants of u. It is through this ratio of operating income to sales that the speed of asset turnover exerts its influence on relative ability to shift. Before exploring this influence, however, we must clarify the nature of the assets which are pertinent to the present study.

6. *Operating Assets*

All corporate assets fall into two broad classes, operating and nonoperating. The latter category includes assets held as investments and not normally employed in the principal operations of the enterprise. All other assets—plant and equipment, inventories, minimum cash balance, etc.—may be regarded as operating assets. In actual practice, it is difficult to make a rigid distinction between these two types of assets. For example, are government securities held by a manufacturing corporation to be regarded as operating or as nonoperating assets? These marketable securities are normally carried in the " current " section of the balance sheet because they are intended to be earning substitutes for idle cash. Yet they are similar to long-term investments, which are clearly nonoperating assets, because they generate investment income, not manufacturing profit.

In deciding which assets are to be treated as operating assets, the writer has been guided by the traditional concept of profits-tax shifting, which envisions the transfer as being effected through an increase in the price of the " product." Following this approach,

[4] Although $\frac{1}{u}$ was eventually chosen as the index of partial relative ability to shift, it is convenient here to relate $(1-f)$ to the tentative index u.

income from investments was omitted from the computation of taxable operating income and the investments, themselves, were deducted from total assets in arriving at operating assets. Footnote c to Table 1 names the two balance sheet items excluded.[5]

7. *Determinants of r*

The ratio of operating income to sales (r) is itself determined by two ratios:

v—the ratio of operating income to operating assets (line 7 of Table 2), and

n—the ratio of sales to operating assets (line 8 of Table 2).

The relationship among these variables may be expressed by

$$r = \frac{v}{n}, \text{ or} \tag{3}$$

$$r = v \cdot \frac{1}{n}. \tag{4}$$

8. *Rate of Return on Assets*

The first of these determinants (v) serves as an index of the earning power of assets employed by a firm in its principal line of endeavor, for it measures the rate of return on operating assets before account is taken of the source of funds. Two firms with the same n but with different v's will have different r's, and consequently different u's and y's. That is to say, if they turn over their operating assets at the same speed, but have different rates of return on those assets, they will be confronted with different sales increase requirements to shift the same increase of the tax rate.

The ratio of operating income to operating assets (v) for the seven industrial groups is shown in line 7 of Table 2. It ranges from 5.48 per cent for public utilities to 9.21 per cent for manufacturing, and exhibits substantially less dispersion than does the other determinants of r. The significance of this relatively low degree of dispersion will be discussed later in the analysis of ranks.

9. *Turnover of Assets*

One variable remains to be explained—n, the ratio of sales to operating assets and the second of the two determinants of r in formula (3). This ratio measures the speed with which operating assets are turned over in sales and is one of the two factors stressed at the beginning of this paper as being responsible for variations in ability to shift.

Formula (3) tells us that if v is held constant, variations in r will be completely accounted for by variations in n; stated differently, the formula tells us that if two corporations (or industries) have the same rate of return on operating assets (v), their ratios of operating income to sales (r) will vary inversely with the speed of asset turnover (n). Similarly, formula (4) tells us that, for the same corporations, the ratio of operating income to sales (r) will vary directly with the ratio of operating assets to sales $\left(\frac{1}{n}\right)$, since the latter ratio is nothing more than the reciprocal of the asset turnover rate.

Since v is not perfectly constant for the seven industrial groups, it is unlikely that we will find a close relationship be-

[5] Failure to include rented property results in an under-statement of total "property used in the business." Absence of information on rented property and the practical difficulties of decomposing the rental payment into its logical components—a depreciation element and an interest element—have led the writer to ignore the matter entirely. For further discussion of this problem, see Shoup, *op. cit.*, p. 15.

tween r, viewed as a dependent variable, and either n or $\frac{1}{n}$, regarded as an independent variable. Yet when these three variables are plotted, they exhibit the very relationship we would expect only if r were exclusively dependent on n.

This finding suggests that the rate of asset turnover (n) is more important than the rate of return on assets (v) in determining the value of r, and eventually of u and y.

10. *Ranked Distribution of Data*

To isolate the influence of variations in the turnover rate (and in the other variables referred to above) on relative ability to shift, the writer has constructed Table 3 in which the ratios of Table 2 have been replaced with ranks. The columns of Table 3 correspond to the lines of Table 2, and the industrial groups are listed in ascending order of the necessary sales increase—y. Trade, which requires the smallest percentage increase in sales in order to shift the tax increment, is given rank number one; public utilities, requiring the largest increase, hold seventh place; and the other five industrial groups occupy intermediate ranks reflecting the size of the necessary sales increase. For each of the remaining variables, then, a number has been assigned corresponding to the relative size of the respective ratio among the seven groups.

The sequence of ranks follows logically from the functional relationships:

$$y = F\,(u)$$

$$\text{where } u = G\,(r,\,1-f)$$

$$\text{and where } r = H\,(v,\,n).$$

The ranks of y and u coincide since the former is a constant multiple of the latter. A reciprocal relationship obtains between columns 2 and 3 and between columns 8 and 9. The sequence of ranks in column 2 is determined jointly by the data behind columns 5 and 6; similarly, the data underlying columns 7 and 9 jointly account for the sequence of ranks in column 6.

Partial relative ability to shift is shown in column 3. Trade has the highest index and public utilities the lowest. When we compare this column with column 5, which reflects the influence of capital structure, we find an absence of close association between the two sets of ranks. Among the seven industrial groups, partial relative ability

TABLE 3

PARTIAL RELATIVE ABILITY TO SHIFT THE CORPORATE INCOME TAX: RANKS OF SEVEN INDUSTRIAL GROUPS

	y (1)	u (2)	$\frac{1}{u}$ (3)	f (4)	$(1-f)$ (5)	r (6)	v (7)	n (8)	$\frac{1}{n}$ (9)
Trade	1	1	7	4	4	1	4	7	1
Construction	2	2	6	1	7	2	5	6	2
Service	3	3	5	6	2	4	6	4	4
Manufacturing	4	4	4	2	6	3	7	5	3
Agriculture	5	5	3	5	3	5	2	3	5
Mining	6	6	2	3	5	6	3	2	6
Public utilities	7	7	1	7	1	7	1	1	7

to shift fails to vary systematically with the type of capital structure.

Partial relative ability to shift does vary closely (though inversely) with the ratio of operating income to sales (r), as is evident from a comparison of columns 6 and 3.[6] We observed earlier, however, that while r is jointly determined by two independent ratios, one of the latter—v—displays relatively mild dispersion. As a result, variations in the other ratio—$\frac{1}{n}$—dominate the variation of r. This fact emerges clearly in Table 3 where the group rankings are identical with respect to r and $\frac{1}{n}$ (columns 6 and 9).

[6] The reader may perceive the closeness of the relationship more easily by comparing column 6, not with column 3, but with column 2, the tentative index of partial relative ability to shift.

Since $\frac{1}{n}$ is nothing but the reciprocal of the rate of asset turnover, and since we have already determined that partial relative ability to shift varies closely with r, we may conclude that partial relative ability to shift, among the seven industrial groups, varies closely with the rate of asset turnover.

11. *Importance of Speed of Turnover*

Toward the end of further clarification of this important relationship, pertinent data from Tables 2 and 3 have been assembled in Table 4.

The industrial groups are now arranged according to the speed with which they turn over their assets, that is, according to the size of n. The public utilities, with the lowest ratio of sales to operating assets (n is 27.21 per cent), have the smallest index of partial relative ability to shift ($\frac{1}{u}$ is 749.64 per cent), and thus will require the largest increase in sales (y is ~~3.13~~ 4.09 per cent) to shake off the burden of a doubled tax rate. Trade, with the fastest rate of asset turnover (n is 260.84 per cent), is blessed with the largest index of partial relative ability to shift ($\frac{1}{u}$ is 3,937.01

TABLE 4

TURNOVER OF OPERATING ASSETS AND RELATIVE ABILITY TO SHIFT THE CORPORATE INCOME TAX: SEVEN INDUSTRIAL GROUPS

Industrial Group	Sales to Operating Assets (n)		Sales to Taxable Operating Income ($\frac{1}{u}$)		Necessary Sales Increase (y)	
	Ratio (%) (1)	Rank (2)	Ratio (%) (3)	Rank (4)	Ratio (%) (5)	Rank (6)
Public utilities	27.21	1	749.64	1	~~3.13~~ 4.09	7
Mining	54.01	2	834.73	2	2.81 3.67	6
Agriculture	66.15	3	1,404.49	3	1.67 2.18	5
Service	115.73	4	1,501.50	5	1.56 2.04	3
Manufacturing	125.00	5	1,461.99	4	1.60 2.10	4
Construction	192.39	6	2,392.34	6	.98 1.28	2
Trade	260.84	7	3,937.01	7	.60 0.79	1

per cent), and requires the smallest increase in sales to pass on the same tax increment.

With one exception partial relative ability to shift improves systematically among the seven industrial groups as the speed of asset turnover increases. The exception occurs in the relative positions of the service and manufacturing industries. Manufacturing, which has the third largest ratio of sales to operating assets (n is 125.00 per cent), has the fourth largest ratio of sales to taxable income ($\frac{1}{u}$ is 1,461.99 per cent). The service industries, with the fourth largest sales/assets ratio (n is 115.73 per cent), have the third largest sales/income ratio ($\frac{1}{u}$ is 1,501.50 per cent). In other words, although the service industries turn over their operating assets at a slower rate than do the manufacturing industries, the former are in a better position to shift the income tax. That the advantage is slight, however, is confirmed by a comparison of the increase in sales necessary to shift a 19-point increase in the tax rate: manufacturing requires a ~~1.60~~ 2.10 per cent increase while the service industries require a ~~1.56~~ 2.04 per cent increase.

Of the factors which have been examined in this paper, the rate of asset turnover promises to be the most fruitful in studying variations of ability to shift the corporate income tax. Slow turnover is clearly associated with a relatively low degree of ability to shift, and rapid turnover typically means a relatively high degree of ability to shift. Further investigation is in order, however, with smaller industrial divisions than the ones employed here.

THE NATIONAL TAX ASSOCIATION—PLACES OF MEETINGS AND OFFICERS

LEO MATTERSDORF *

THE National Tax Association has now been in existence forty-three years. In that time a veritable revolution has taken place in the field of taxation as the result of two world wars, international crises, a major depression, and their effect on world economy. When the Association was first organized in 1907, there was no Federal income tax, nor had any state levied a modern income tax; sales taxes, use taxes, gross receipts taxes, and several other forms of imposts which most of us now take for granted were unknown in the United States. The year 1907 marked the admission of Oklahoma to the Union as the forty-sixth state, and it was not until five years later that our flag was to have its present complement of forty-eight stars upon the admission of Arizona and New Mexico.

The National Tax Association, through the conferences sponsored by it, has provided a forum for all those interested in taxation to present different viewpoints regarding the changes which have occurred in the financing and economy of all the levels of government in this country and, often, of other countries as well. These conferences have taken place in all sections of the United States, though not in all the states, and twice within the boundaries of our good neighbor to the north, the Dominion of Canada.

Some time after the first meeting in Columbus, Ohio, the organization's name was changed to the "International Tax Association." The reasons for this change of name from National Tax Association to International Tax Association are set forth on page 13 of the proceedings for 1911 as follows: "At the First Conference in 1907 a number of delegates were present from the Canadian Provinces, and when, following their cordial invitation, the Second Conference was held at Toronto, the name of the Association was changed so that it might include our Canadian friends." But the same source goes on to say: "It has been found since then that Canadian taxation laws and systems present problems widely different from those demanding consideration in the United States. Partly, this is due to the difference in governmental structure, and partly, to an early divergence in the developments of the taxing systems of the two countries." Consequently, it was voted on September 8, 1911, to resume the name National Tax Association.

In any event, throughout the years Canada has been closely linked with us in this association; since 1911 there have been two honorary members from the Dominion on the Executive Committee. Many of us recall the expression given to the ties of friendship between these two neighbors on the North American continent by L. I. McMahon from the Province of Quebec when he frequently stressed the fact that nowhere else in the world could one find a mutually undefended boundary some 3,000 miles in extent. In 1936 he expressed that sentiment when he said: "I want to leave with you this great and glorious thought, that for over one hundred years no person has ever crossed from either the United States or Canada without the feeling of friendliness and goodwill. When we picture bleeding Europe at the present time, I know that we will try to maintain it."[1] In the

* The author, a Certified Public Accountant in New York City, is a member of the Executive Committee of the National Tax Association.

[1] *Proceedings*, 1936, p. 6.

field of international goodwill, the National Tax Association has played a prominent role.

Many of us have often felt the desire to have readily available some chart showing where the conferences sponsored by the National Tax Association were held and who its officers were. A list of its presidents, for instance, includes the names of many, who though now no longer with us, have left their imprint on the sands of tax time. Even those of the younger tax generation, who did not have the good fortune to know or hear some of these men personally, will recognize names such as Thomas S. Adams and Mark Graves. To satisfy the desire already mentioned two tables have been prepared to show the dates and places of the conferences as well as the names of officers of the National Tax Association elected at each conference.

Table 1 gives the dates on which conferences were held, the cities where held, and the names of the officers and the states or provinces from which each hailed. In the years from 1907 to 1910 the National (or International) Tax Association had a Corresponding Secretary as well as a Secretary. From 1908 to 1910 inclusive there were one Vice-President and one Corresponding Secretary for the United States and one of each of these two officers for Canada.

It will be seen that owing to the first World War no conference was held in 1918 and, as a result, no proceedings were printed in that year. In 1945 owing to the second World War, no conference was held. But since papers had been prepared for delivery, proceedings were printed as "Conference in Print." The volume issued to cover this "Conference in Print" is number 38 and in a sense, therefore, may be counted as a conference. Hence, the 1950 conference, though known as the forty-third really represents the forty-second get-together.

Table 2 summarizes some of the data in Table 1 by giving a list of the states (or provinces) and cities in which conferences have been held as well as the years in which conferences took place in each city. It will be seen, for instance, that the city which has most often played host to a conference is Chicago, which has been host city three times. Illinois as a state was host state three times as were also the states of Missouri, New York, and Ohio.

It is hoped that this short summary with the tables will meet the expressed desire of the many who have wanted some such thumb-nail sketch of the National Tax Association.

TABLE 1

NATIONAL TAX ASSOCIATION[a]—CONFERENCES AND OFFICERS

Conference				Officers Elected at Conference and States or Provinces from Which They Came
Number	Year Held	Dates Held	City in Which Held	
1	1907	Nov. 12-15	Columbus, Ohio	*President* —Allen Ripley Foote (Ohio) *Vice-Pres.* —Lawson Purdy (N.Y.) *Secretary* —Mary C. Snyder (Ohio) *Corres. Sec'y* —A. C. Pleydell (N.Y.)
2	1908	Oct. 6-9	Toronto, Ont.	*President* —Allen Ripley Foote (Ohio) *V.P. for U.S.* —Lawson Purdy (N.Y.) *V.P. for Canada* —A. P. McNab (Sask.) *Treasurer* —Foster Copeland (Ohio) *Secretary* —Mary C. Snyder (Ohio) *Corres. Sec'y for U.S.* —A. C. Pleydell (N.Y.) *Corres. Sec'y for Canada*—G. R. Greary (Ont.)
3	1909	Sept. 21-24	Louisville, Ky.	*President* —Allen Ripley Foote (Ohio) *V.P. for U.S.* —Lawson Purdy (N.Y.) *V.P. for Canada* —Arthur J. Matheson (Ont.) *Treasurer* —Foster Copeland (Ohio) *Secretary* —Mary C. Snyder (Ohio) *Corres. Sec'y for U.S.* —A. C. Pleydell (N.Y.) *Corres. Sec'y for Canada*—G. R. Greary (Ont.)
4	1910	Aug. 30-Sept. 2	Milwaukee, Wis.	*President* —Allen Ripley Foote (Ohio) *V.P. for U.S.* —Lawson Purdy (N.Y.) *V.P. for Canada* —Arthur J. Matheson (Ont.) *Treasurer* —Foster Copeland (Ohio) *Secretary* —Mary C. Snyder (Ohio) *Corres. Sec'y for U.S.* —A. C. Pleydell (N.Y.) *Corres. Sec'y for Canada*—J. W. Harris (Man.)

TABLE 1—(*Continued*)

Conference				Officers Elected at Conference and States or Provinces from Which They Came	
Number	Year Held	Dates Held	City in Which Held		
5	1911	Sept. 5-8	Richmond, Va.	*President*	—Allen Ripley Foote (Ohio)
				Vice-Pres.	—Lawson Purdy (N.Y.)
				Treasurer	—Foster Copeland (Ohio)
				Secretary	—A. C. Pleydell (N.Y.)
6	1912	Sept. 3-5	Des Moines, Iowa	*President*	—Edwin R. A. Seligman (N.Y.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Samuel T. Howe (Kan.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Thomas S. Adams (Wis.)
7	1913	Oct. 23-25	Buffalo, N. Y.	*President*	—Edwin R. A. Seligman (N.Y.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Samuel T. Howe (Kan.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Thomas S. Adams (Wis.)
8	1914	Sept. 8-11	Denver, Colo.	*President*	—Edwin R. A. Seligman (N.Y.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Samuel T. Howe (Kan.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Thomas S. Adams (Wis.)
9	1915	Aug. 10-13	San Francisco, Calif.	*President*	—Samuel T. Howe (Kan.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Charles J. Bullock (Mass.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Thomas S. Adams (Wis.)
10	1916	Aug. 28-31	Indianapolis, Ind.	*President*	—Samuel T. Howe (Kan.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Charles J. Bullock (Mass.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Fred R. Fairchild (Conn.)
11	1917	Nov. 13-16	Atlanta, Ga.	*President*	—Charles J. Bullock (Mass.)
					Allen Ripley Foote [b] (Ohio)
				Vice-Pres.	—Nils P. Haugen (Wis.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Fred R. Fairchild (Conn.)

TABLE 1—(*Continued*)

Number	Year Held	Conference: Dates Held	Conference: City in Which Held	Officers Elected at Conference and States or Provinces from Which They Came	
	1918	(No conference held owing to war)			
12	1919	June 17-19	Chicago, Ill.	*President*	—Nils P. Haugen (Wis.)
				Vice-Pres.	—Zenas W. Bliss (R.I.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
13	1920	Sept. 6-10	Salt Lake City, Utah	*President*	—Zenas W. Bliss (R.I.)
				Vice-Pres.	—Samuel Lord (Minn.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
14	1921	Sept. 12-16	Bretton Woods, N.H.	*President*	—Samuel Lord (Minn.)
				Vice-Pres.	—Thomas S. Adams (Conn.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
15	1922	Sept. 18-22	Minneapolis, Minn.	*President*	—Thomas S. Adams (Conn.)
				Vice-Pres.	—William Bailey (Utah)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
16	1923	Sept. 24-27	White Sulphur Springs, W.Va.	*President*	—William Bailey (Utah)
				Vice-Pres.	—Thomas W. Page (D.C.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
17	1924	Sept. 15-19	St. Louis, Mo.	*President*	—Thomas W. Page (D.C.)
				Vice-Pres.	—George Vaughan (Ark.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
18	1925	Nov. 9-13	New Orleans, La.	*President*	—George Vaughan (Ark.)
				Vice-Pres.	—Joseph S. Matthews (N.H.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)
19	1926	Nov. 15-19	Philadelphia, Pa.	*President*	—Joseph S. Matthews (N.H.)
				Vice-Pres.	—Harley L. Lutz (Calif.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Alfred E. Holcomb (N.Y.)

TABLE 1—(*Continued*)

Conference				Officers Elected at Conference and States or Provinces from Which They Came	
Number	Year Held	Dates Held	City in Which Held		
20	1927	Oct. 10-14	Toronto, Ont.	*President*	—Harley L. Lutz (Calif.)
				Vice-Pres.	—Mark Graves (N.Y.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Walter G. Query (S.C.)
21	1928	Aug. 27-31	Seattle, Wash.	*President*	—Mark Graves (N.Y.)
				Vice-Pres.	—Fred R. Fairchild (Conn.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Walter G. Query (S.C.)
22	1929	Sept. 9-13	Upper Saranac, N.Y.	*President*	—Fred R. Fairchild (Conn.)
				Vice-Pres.	—Clarence M. Smith (Kan.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Walter G. Query (S.C.)
23	1930	Oct. 20-24	Kansas City, Mo.	*President*	—Clarence M. Smith (Kan.)
				Vice-Pres.	—Robert M. Haig (N.Y.)
				Treasurer	—Alfred E. Holcomb (N.Y.)
				Secretary	—Walter G. Query (S.C.)
24	1931	Oct. 12-16	Atlanta, Ga.	*President*	—Robert M. Haig (N.Y.)
				Vice-Pres.	—Franklin S. Edmonds (Pa.)
				Treasurer	—Walter G. Query (S.C.)
				Secretary	—Walter G. Query (S.C.)
25	1932	Sept. 12-16	Columbus, Ohio	*President*	—Franklin S. Edmonds (Pa.)
				Vice-Pres.	—Alfred E. Holcomb (N.Y.)
				Treasurer	—Walter G. Query (S.C.)
				Secretary	—Walter G. Query (S.C.)
26	1933	Oct. 16-19	Phoenix, Ariz.	*President*	—Alfred E. Holcomb (N.Y.)
				Vice-Pres.	—Henry F. Long (Mass.)
				Treasurer	—Walter G. Query (S.C.)
				Secretary	—Walter G. Query (S.C.)
27	1934	Oct. 1-5	Boston, Mass.	*President*	—Henry F. Long (Mass.)
				Vice-Pres.	—Philip Zoercher (Ind.)
				Treasurer	—Walter G. Query (S.C.)
				Secretary	—Walter G. Query (S.C.)

TABLE 1—(*Continued*)

Conference				Officers Elected at Conference and States or Provinces from Which They Came	
Number	Year Held	Dates Held	City in Which Held		
28	1935	Oct. 14-17	Oklahoma City, Okla.	*President*	—Philip Zoercher (Ind.)
				Vice-Pres.	—Oscar Leser (Md.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
29	1936	Sept. 28-Oct. 1	Indianapolis, Ind.	*President*	—Oscar Leser (Md.)
				Vice-Pres.	—Simeon E. Leland (Ill.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
30	1937	Oct. 25-28	Baltimore, Md.	*President*	—Simeon E. Leland (Ill.)
				Vice-Pres.	—A. H. Stone (Miss.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
31	1938	Oct. 24-28	Detroit, Mich.	*President*	—A. H. Stone (Miss.)
				Vice-Pres.	—Charles W. Gerstenberg (N.Y.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
32	1939	Oct. 16-19	San Francisco, Calif.	*President*	—Charles W. Gerstenberg (N.Y.)
				Vice-Pres.	—Royal B. Cushing (Ill.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
33	1940	Sept. 9-12	New York, N. Y.	*President*	—A. J. Maxwell (N.C.)
				Vice-Pres.	—Seth T. Cole (N.Y.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Walter G. Query (S.C.)
34	1941	Oct. 13-16	St. Paul, Minn.	*President*	—Seth T. Cole (N.Y.)
				Vice-Pres.	—Walter G. Query (S.C.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Raymond E. Manning (D.C.)
35	1942	Oct. 19-22	Cincinnati, Ohio	*President*	—Walter G. Query (S.C.)
				Vice-Pres.	—Roy G. Blakey (Minn.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Raymond E. Manning (D.C.)

TABLE 1—(*Continued*)

Number	Year Held	Conference: Dates Held	Conference: City in Which Held	Officers Elected at Conference and States or Provinces from Which They Came	
36	1943	Nov. 20-22	Chicago, Ill.	*President*	—Roy G. Blakey (Minn.)
				Vice-Pres.	—Dixwell L. Pierce (Calif.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Raymond E. Manning (D.C.)
37	1944	Sept. 11-13	St. Louis, Mo.	*President*	—Dixwell L. Pierce (Calif.)
				Vice-Pres.	—James W. Martin (Ky.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Raymond E. Manning (D.C.)
38	1945	Conference in Print—No actual meeting held owing to war conditions.			
39	1946	June 3-6	Chicago, Ill.	*President*	—James W. Martin (Ky.)
				Vice-Pres.	—George W. Mitchell (Ill.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Ronald B. Welch (Calif.)
40	1947	Nov. 17-20	Miami Beach, Fla.	*President*	—George W. Mitchell (Ill.)
				Vice-Pres.	—Carl Shoup (N.Y.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Ronald B. Welch (Calif.)
41	1948	Oct. 4-7	Denver, Colo.	*President*	—Carl Shoup (N.Y.)
				Vice-Pres.	—William A. Sutherland (D.C.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Ronald B. Welch (Calif.)
42	1949	Sept. 19-22	Boston, Mass.	*President*	—G. Howard Spaeth (Minn.)
				Vice-Pres.	—William A. Sutherland (D.C.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Ronald B. Welch (Calif.)
43	1950	Sept. 11-14	Pittsburgh, Pa.	*President*	—William A. Sutherland (D.C.)
				Vice-Pres.	—Alfred G. Buehler (Pa.)
				Treasurer	—Robert J. Eby (N.Y.)
				Secretary	—Ronald B. Welch (Calif.)

[a] Known as International Tax Association some time after first Conference to September 8, 1911.

[b] Honorary president.

TABLE 2

National Tax Conferences—Where Held

State and City in Which Held	Year Held	State and City in Which Held	Year Held
Arizona (Phoenix)	1933	Minnesota (St. Paul)	1941
California (San Francisco)	1915	Missouri (St. Louis)	1924
California (San Francisco)	1939	Missouri (Kansas City)	1930
Colorado (Denver)	1914	Missouri (St. Louis)	1944
Colorado (Denver)	1948	New Hampshire (Bretton Woods)	1921
Florida (Miami Beach)	1947	New York (Buffalo)	1913
Georgia (Atlanta)	1917	New York (Upper Saranac)	1929
Georgia (Atlanta)	1931	New York (New York)	1940
Illinois (Chicago)	1919	Ohio (Columbus)	1907
Illinois (Chicago)	1943	Ohio (Columbus)	1932
Illinois (Chicago)	1946	Ohio (Cincinnati)	1942
Indiana (Indianapolis)	1916	Oklahoma (Oklahoma City)	1935
Indiana (Indianapolis)	1936	Ontario (Toronto)	1908
Iowa (Des Moines)	1912	Ontario (Toronto)	1927
Kentucky (Louisville)	1909	Pennsylvania (Philadelphia)	1926
Louisiana (New Orleans)	1925	Pennsylvania (Pittsburgh)	1950
Maryland (Baltimore)	1937	Utah (Salt Lake City)	1920
Massachusetts (Boston)	1934	Virginia (Richmond)	1911
Massachusetts (Boston)	1949	Washington (Seattle)	1928
Michigan (Detroit)	1938	West Virginia (White Sulphur Springs)	1923
Minnesota (Minneapolis)	1922	Wisconsin (Milwaukee)	1910

BOOK NOTES

Summary of H. R. 8920, "The Revenue Act of 1950," as Agreed to by the Conferees. By Staff of the Joint Committee on Internal Revenue Taxation. Washington: Government Printing Office, 1950. Pp. iv + 32.

This useful pamphlet contains an authoritative summary of provisions of the Revenue Act of 1950. It includes comparative tables of effective rates of individual and corporate income taxes under the new and the old law, as well as an explanation of other features of the act. Table 2 shows, by income classes, estimated net income of individuals, number of taxable returns, and tax liability under the new and old laws.

Central Government Finances. Economic Cooperation Administration, Division of Statistics and Reports. Special Report, April, 1950. Pp. 36.

This report compiles data on central government finances of the seventeen countries participating in the European Recovery Program. The data, which were obtained from questionnaires completed by ECA missions in the period November-December, 1949, cover revenues and expenditures, classified by major types, and gross debt for several years. Summaries have been prepared on as uniform a basis as possible to facilitate comparisons among the countries. The data are preliminary, inasmuch as various adjustments of the basic materials are under consideration.

Wartime Economic Stabilization and the Efficiency of Government Procurement: A Critical Analysis of Certain Experience of the United States in World War II. By Thomas Blanchard Worsley. (Printed by the National Security Resources Board with the permission of the Department of Economics and the Department of Graduate Studies of the University of Virginia.) Washington: Government Printing Office, 1949. Pp. viii + 422.

This monograph is a doctoral dissertation submitted to the University of Virginia in June, 1948. It is reproduced by the National Security Resources Board, on whose staff the author now serves, as a basis for further analysis of mobilization planning but with the statement that the author's views are not necessarily those of the board. The stated objectives of the study are: (1) "To summarize and to analyze critically our World War II experience with the economic stabilization controls *indirectly* necessary for maximum efficiency in Government procurement, including efficiency in direct contract price and profit policies"; and (2) "To focus attention upon those policies and controls applied *directly* to prices and profits in the area of Government procurement, and which are essential for general economic stabilization, including policies and controls administered: (a) by the central price-control authority and (b) by the procurement agencies themselves" (p. i).

Parts of the study dealing with the first of the above objectives consist essentially of general summaries of existing studies. The sections on direct controls in the area of government procurement are intended to be more comprehensive and are drawn largely from original source materials. In preparation of these latter sections the author has drawn on his wartime experience as an economist in the Office of Price Administration and an officer engaged in procurement in the Army Quartermaster Corps and the Army Air Forces.

With respect to general stabilization policy the author recommends introduction of a complete set of direct controls (price, wage, profit, rationing) as early in a war emergency as feasible. He believes that greater reliance should be placed on fiscal policy, including forced loans as well as heavy progressive income taxation, than in World War II. In the specific area of government procurement, he recommends emphasis on preventive (price) methods of profit control rather than recovery of excessive profits by taxation and renegotiation. Nevertheless, he suggests a study of the effects of renegotiation on efficiency and costs.

The volume concludes with a statistical appendix and a bibliography.

Summary of the Revised Budget of the Dominion of Canada for the Fiscal Year Ending March 31, 1951, as Presented on September 7, 1950. By Staff of the Joint Committee on Internal Revenue Taxation. Washington: Government Printing Office, 1950. Pp. 8.

With the objective of maintaining a budget surplus in a time of increasing inflationary pressures, the Finance Minister of the Dominion of Canada on September 7, 1950, presented revised budget proposals designed to increase tax collections in the fiscal year ending March 31, 1951, by \$58.9 million and by \$189.5 million in a full year's operations. These proposals would transform an anticipated budget deficit of \$44.0 million for the year ending March 31, 1951, into a surplus of \$14.9 million. Increased military expenditures accounted for the deficit expected under the old revenue laws. The new revenue proposals include: (1) a 5 percentage point increase in corporate income tax rates; (2) increased rates on alcoholic beverages and

other commodities already subject to excises; and (3) new excises on soft drinks and candies and chewing gum.

This report prepared by the staff of the Congressional Joint Committee on Internal Revenue Taxation summarizes the revenue proposals and compares effective rates of income tax in Canada and the United States.

Expenditures and Financial Resources of the State and Local Governments in Illinois. By ILLINOIS DEPARTMENT OF FINANCE. Springfield, September 15, 1950. Pp. 11.

This pamphlet is an excellent, brief, popular report on expenditures and financial resources of the State of Illinois and the approximately 8,000 local units of government in the State. The figures are estimates of current annual rates rather than data for any particular calendar or fiscal year. In a supplementary note it is pointed out that lack of comprehensive financial reporting by local governments has necessitated use of estimates. These estimates, the department believes, could not be greatly improved without a considerable expenditure of time and money.

STATISTICS OF INCOME

Recent releases of U. S. Treasury Department reports on *Statistics of Income* include the following:

Statistics of Income for 1945, Part 2 (compiled from corporation income and declared value excess-profits tax returns, corporation excess profits tax returns, and personal holding company returns). Washington: Government Printing Office, 1950. Pp. vi + 536. $1.

Statistics of Income for 1947, Part 2 (preliminary report of corporation income tax returns filed through December 31, 1948). Washington: Government Printing Office, 1950. Pp. v + 18. 10 cents.

Excerpts from *Statistics of Income for 1946*, Part 1 (Treasury Department Press Service No. S-2432, August 30, 1950).

Excerpts from *Statistics of Income for 1947*, Part 2 (Treasury Department Press Service No. S-2449, September 22, 1950).

All these reports were prepared by the Statistical Division of the Bureau of Internal Revenue under the direction of the Commissioner.

CENSUS OF GOVERNMENTS

A complete census of governments will be taken in 1952 in compliance with Public Law 767, 81st Congress, which was signed by President Truman September 7, 1950. This legislation requires a complete census of governments in 1952 and each five years thereafter. The census is to cover at least the subjects of "taxes and tax valuations, governmental receipts, expenditures, indebtedness, and employees." The new law replaces part of the old Census Act of 1902, which merely authorized, but did not require, a census of governments each ten years. Periodic reporting of benchmark government statistics is thus placed on a statutory basis similar to that for the quinquennial censuses of manufacturing, trade and service industries, and agriculture.

Preliminary preparation has already begun for the Census of Governments of 1952, Roy V. Peel, Director of the Bureau of the Census, has announced. In planning the content and coverage of this census the Census Bureau says that it has sought the help of a representative group including state and municipal officials, economic research agencies, professors of political science and economics, and others directly interested in governmental statistics.

The first major phase of the 1952 census will be indentification and listing of all local governments. This task, which is essential to later gathering of financial and employment figures, will also provide new

benchmark information on numbers of governments. The Census Bureau expects to publish such figures by early 1952, bringing up to date the count last made for 1942, when more than 108 thousand school districts and 46 thousand other local governments were reported in existence.

Later phases of the 1952 census, as now planned by the Census Bureau, will relate to realty valuations for property taxation, public employees and payrolls, and governmental finances. Census reports on these various subjects are being scheduled for publication at intervals from 1952 until mid-1954.

Census Bureau Publications on Governments. U. S. Bureau of the Census, Governments Division. Washington, July, 1950.

This leaflet describes briefly each of the seventeen reports on governmental finances and employment which the Census Bureau expects to issue in the fiscal year ending June 30, 1951, and lists other recent publications of the bureau regarding state and local governments. It is available free of charge from the Bureau of Census on request.

Highway Finance and Taxation in New York. Prepared for the Citizens Public Expenditure Survey, Inc., of New York State by GRIFFENHAGEN & ASSOCIATES. February, 1950. Pp. 271.

As stated in the letter of transmittal, this report is addressed to two main questions: (1) "What share of highway costs in New York should be borne by the highway users?" and (2) "How should the highway user share be divided among users (*i.e.*, what should the user tax rates be) at various highway expenditure levels?" The report includes a description of the New York highway system and its financing, a discussion of various sources of highway revenues, and proposals for highway financing. The authors recommend that, in allocating highway costs between users and general taxpayers, highway users should pay all of the cost of the State highways, 60 per cent of the cost of county roads, 37.5 per cent of the cost of municipal streets, and none of the cost of town highways. In addition to the material on New York, the study includes useful comparative data on motor vehicle taxes in other states.

The Stabilizing Budget Policy: What It Is and How It Works. By COMMITTEE FOR ECONOMIC DEVELOPMENT. New York, 1950. Pp. 19. Single copies, free; additional copies, 10 cents each. (Address: 444 Madison Avenue, New York 22, N. Y.)

This pamphlet describes the "stabilizing budget policy" advocated by the Committee for Economic Development. As originally proposed in 1947 by the CED Research and Policy Committee, this budget policy would be guided by the following principles: "Set tax rates to balance the budget and provide a surplus for debt retirement at an agreed high level of employment and national income. Having set these rates, leave them alone unless there is some major change in national policy or condition of national life" (p. 8). The present discussion explains the operation of this policy and sets forth reasons for preferring it to the traditional policy of an annually balanced budget or the "managed-compensatory budget policy."

NTA NOTES

NEW MEMBERS

CALIFORNIA

Mr. George F. Break, Instructor
Department of Economics
Pomona College, Claremont

CONNECTICUT

Mr. Edgar C. Hannan, C.P.A.
249 Main Street, Bristol

Mr. A. Schaffman, C.P.A.
68 Pratt Street, Hartford

DISTRICT OF COLUMBIA

Dr. George F. Mott
Mott of Washington & Associates
4534 Reno Road, N.W., Washington 8

ILLINOIS

Mr. Russell H. Classen, Attorney
10-A Public Square, Belleville

Mr. R. E. Costello, Attorney
606 First National Bank Bldg.
East St. Louis

Mr. Donald J. Dougherty, Attorney
222 Metroplitan Building, East St. Louis

Mr. Robert F. Godfrey, Attorney
Arcade Building, East St. Louis

Mr. E. O. Hanson, Manager
Tax Department, Standard Oil Company-Indiana
910 S. Michigan Ave., Chicago 80

Mr. Orville E. Hodge
The Hodge Agency
1915 Edison Avenue, Granite City

Mr. A. C. Johnson, President
First National Bank
East St. Louis

Mr. Carl M. Lomax
S. M. Wilson and Company
1903 State Street, Granite City

Mr. R. B. Still, President
Illinois Telephone Company
109 E. Market St., Bloomington

Mr. Arthur R. Westermann
Tax Examiner, Illinois Central Railroad
5254 Berenice Avenue, Chicago

Mr. Eugene H. Widman, Attorney
19-A N. Illinois Street, Belleville

KANSAS

Mr. F. A. Palmer, Tax Supervisor
Pipe Line Department, Sinclair Refining Company
Box 460, Independence

Mr. J. E. Schroeder, Attorney
518 Brotherhood Building, Kansas City

Mr. O. D. Small
Tax Supervisor, The American Telephone Co.
United Building, Abilene

KENTUCKY

Mr. Louis E. Ackerson
Certified Public Accountant
405 Lincoln Bank Building, Louisville

Mr. Frank R. Baker, Supervisor
Ad Valorem Tax Division
Texas Gas Transmission Corp.
416 W. Third Street, Owensboro

Mr. W. T. Craig, Jr.
Texas Gas Transmission Corporation
416 W. Third Street, Owensboro

Mr. Edward S. Dabney
Security Trust Company, Lexington

Mr. W. Waller Grogan, C.P.A.
Escott, Grogan & Co.
Lincoln Bank Building, Louisville 2

Mr. Moses Master, C.P.A.
Welenken & Master
504 Louisville Trust Building, Louisville 2

Mr. J. C. Paris, C.P.A.
208 Central Bank Building, Lexington

Mr. Thomas J. Wood, Attorney
1212 Kentucky Home Life Building
Louisville

MARYLAND

Mr. Wilton T. Allen
Supervisor of Assessments, Montgomery County
Court House, Rockville

Mr. A. Lamar Barrick
Supervisor of Assessments, Frederick County
Court House, Frederick

Mr. Thomas N. Biddison
City Solicitor
217 Court House, Baltimore

Mr. Howard E. Burkhardt
Supervisor of Assessments, Baltimore County
Court House, Towson 4

County Commissioners of Dorchester County
Court House, Cambridge

Mr. Harry A. Dobson
Supervisor of Assessments, Carroll County
Route 6, Westminister

Mr. M. Frank Fitzpatrick, Director
Department of Assessments
215 Municipal Office Building, Baltimore 2

Mr. Alex K. Hancock
Director of Finance, Montgomery County
Court House, Rockville

Mr. Archie H. Hardesty
Supervisor of Assessments
Worcester County, Newark

Mr. John E. Holland
Supervisor of Assessments, Somerset County
208 Somerset Avenue, Princess Anne

Mr. Walter E. Kennedy, Director
Retail Sales Tax Division
State Comptroller of the Treasury
34 Hopkins Place, Baltimore 1

Mr. Louis W. Kutsch
Supervisor of Assessments, Prince George's County
Court House, Upper Marlboro

Mr. George L. Lawrence
Supervisor of Assessments, St. Mary's County
Leonardtown

MICHIGAN

Mr. Louis E. Anderson
Northport

MINNESOTA

Mr. Kenneth F. Briden, Manager
Tax Department
Archer Daniels Midland Company
600 Roanoke Building, Minneapolis 2

Mr. John R. Cowan, C.P.A.
1120 Northwestern Bank Building
Minneapolis 2

Mr. Willard J. Davis, Attorney
Archer Daniels Midland Company
600 Roanoke Building, Minneapolis 2

Faegre & Benson, Attorneys
1260 Northwestern Bank Building
Minneapolis 2

Mr. Arthur Granum
Niowa, Star Route, Park Rapids

Mr. Alfred Greguson, C.P.A.
809 Pillsbury Building, Minneapolis

Mr. Gustav J. Kraase, C.P.A.
607 Marquette Avenue, Minneapolis

Mr. Ray G. McKennan, C.P.A.
2510 Foshay Tower, Minneapolis

Mr. Gerald T. Mullin, Attorney
921 Northwestern Bank Building
Minneapolis 2

Mr. Harold M. Solstad, C.P.A.
1120 Northwestern Bank Building
Minneapolis 2

Mr. Orley R. Taylor, C.P.A.
1212 Pioneer Building, St. Paul 1

Mr. Walter J. Wheeler, Attorney
1023 First National-Soo Line Building
Minneapolis

Mr. Hartwell Wilkerson, C.P.A.
Hines Wilkerson and Wignt
E-706 First National Bank Bldg., St. Paul 1

Mr. William W. Wolkoff, C.P.A.
428 Minnesota Building, St. Paul

MISSISSIPPI

Mr. M. B. Broach, C.P.A.
Box 108, McComb

MISSOURI

Miss Laura Andreas, Attorney
316 N. Broadway, St. Louis 2

Mr. H. D. Johnson
Asst. Real Estate & Tax Agent
Illinois Terminal Railroad Co.
710 N. 12th Boulevard, St. Louis 1

Mr. C. B. Matthews, Tax Agent
Empire District Electric Co., Joplin

Mr. J. J. Merry, Manager
Western Electric Company, Inc.
4240 Duncan Avenue, St. Louis 10

Mr. C. Z. Moore, Tax Agent
Southwestern Bell Telephone Co.
1502 Telephone Building, St. Louis 1

NEW JERSEY

Mr. William D. Kelly, State Supervisor
Inheritance Tax Bureau, Division of Taxation
State House, Trenton

Mr. William Kingsley, State Supervisor
Corporation Tax Bureau, Division of Taxation
State House, Trenton

Mr. Frank Klein, Vice President
Worthington Pump & Machinery Corp., Harrison

Mr. W. C. Martens, Vice-President
The Mennen Company
345 Central Avenue, Newark

Mr. A. F. Metz, President
The Okonite Company
Passaic Street, Passaic

Mr. William Miller
Research Dir., Princeton Surveys
5 Queenston Place, Princeton

Mr. Elbert L. Schoonover, Secretary-Treasurer
Charms Company
601 Bangs Avenue, Asbury Park

MR. R. H. TEMPLE, Treasurer
Thermoid Company
Whitehead Road, Trenton

MR. CARLTON W. TILLINGHAST, Executive Director
New Jersey Taxpayers Assn.
417 Broad Street Bank Bldg., Trenton 8

NEW YORK

MR. EDWARD LEVITT, Tax Consultant
87 Tulane Road, Kenmore 17

MR. HENRY L. MAGGIOLO, Tax Accountant
Combustion Engineering-Superheater, Inc.
200 Madison Avenue, New York 16

NORTH CAROLINA

MR. WINFIELD BLACKWELL, Attorney
1505 Reynolds Building, Winston-Salem

MR. T. C. CONRAD
Geo. G. Scott & Company
126-130 Brevard Ct., Charlotte

MR. FRED R. YOUNG
Geo. G. Scott & Company
126-130 Brevard Ct., Charlotte

OHIO

MR. CARLTON S. DARGUSCH, JR.
45 W. Capital Street, Columbus

DENISON UNIVERSITY LIBRARY
Granville

MR. WALTER W. WARD, Auditor
The A.&P. Tea Company, 425 Atlas Building
8 E. Long Street, Columbus 15

PENNSYLVANIA

MR. GEORGE E. APPLEBAUM, Attorney
5503 Avondale Place, Pittsburgh 6

MR. GRAHAM SALE, JR., Attorney
Westinghouse Electric Corporation
306 4th Avenue, Pittsburgh 19

SOUTH CAROLINA

MR. HUGER SINKLER, Attorney
59 Broad Street, Charleston

TEXAS

MR. H. F. EADS, Tax Representative
Shell Pipe Line Corporation
609 Fannin Street, Houston

VIRGINIA

MR. W. FRED BONNEY, Comptroller
The Atlantic and Danville Ry. Co.
115 West Tazewell Street, Norfolk 10

MR. LLOYD A. DOBYNS, Chairman
Board of Assessors, City of Newport News
P. O. Box 147, Newport News

MR. CHARLES C. DRUMMOND, Secretary-Treasurer
Commonwealth Natural Gas Corp.
219 East Broad Street, Richmond 19

WYOMING

MR. H. F. ESMAY, President
The Converse County Bank, Douglas

CUBA

MR. J. M. MENOCAL, Chief
Note Issue Department, Banco Nacional De Cuba
Calle Cuba 402, Habana

MEXICO

SECRETARIA DE HACIENDA Y CREDITO PUBLICO
Direccion de Estudios Hacendario
Departamento de Biblioteca
Correo Mayor 31, Mexico, D. F.

Statement of the Ownership, Management, Circulation, etc., Required by the Act of Congress of August 24, 1912, as Amended by the Acts of March 3, 1933, and July 2, 1946

Of *National Tax Journal*, published quarterly at Lancaster, Pennsylvania, for October 1, 1950.

State of California }
County of Sacramento } ss:

Before me, a Notary Public in and for the State and county aforesaid, personally appeared Ronald B. Welch, who, having been duly sworn according to law, deposes and says that he is the Business Manager of the *National Tax Journal* and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management, etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Acts of March 3, 1933, and July 2, 1946 (section 537, Postal Laws and Regulations), to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business manager are:

Publisher—National Tax Association, P.O. Box 1799, Sacramento 8, California.

Editor—Roy Blough, Washington, D. C.

Managing Editor—None.

Business Manager—Ronald B. Welch, P.O. Box 1799, Sacramento 8, California.

2. That the owner is: National Tax Association, a non-stock corporation, chartered in the District of Columbia, whose principal office is located at 1020 N Street, Sacramento 14, California.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

(Signed) Ronald B. Welch, *Business Manager.*

Sworn to and subscribed before me this 28th day of September, 1950.

(Signed) W. E. Templeman, Jr.

Notary Public, County of Sacramento, State of California.

Commission expires February 2, 1953.